

THE REAL ESTATE MARKET IN TRINIDAD AND TOBAGO: ARE WE SAILING TOO CLOSE TO THE WIND

**CCMS 12th Annual Senior Level
Policy Seminar –**

***The Impact of the Sub Prime Crisis
in the United States on Caribbean
Financial Markets and Business
Activity***

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OUTLINE

1. OUR OWN SUB-PRIME CRISIS

2. AN EXAMINATION OF THE DATA

**1. WHAT FUELLED THE RUN-UP IN HOUSE
PRICES**

4. HAVE CONDITIONS CHANGED

5. DEFINING A BUBBLE

**6. FIVE SIGNS OF A BUBBLE: ARE WE THERE
YET?**

7. SAILING CLOSE TO THE WIND

Our Own Sub-Prime Crisis

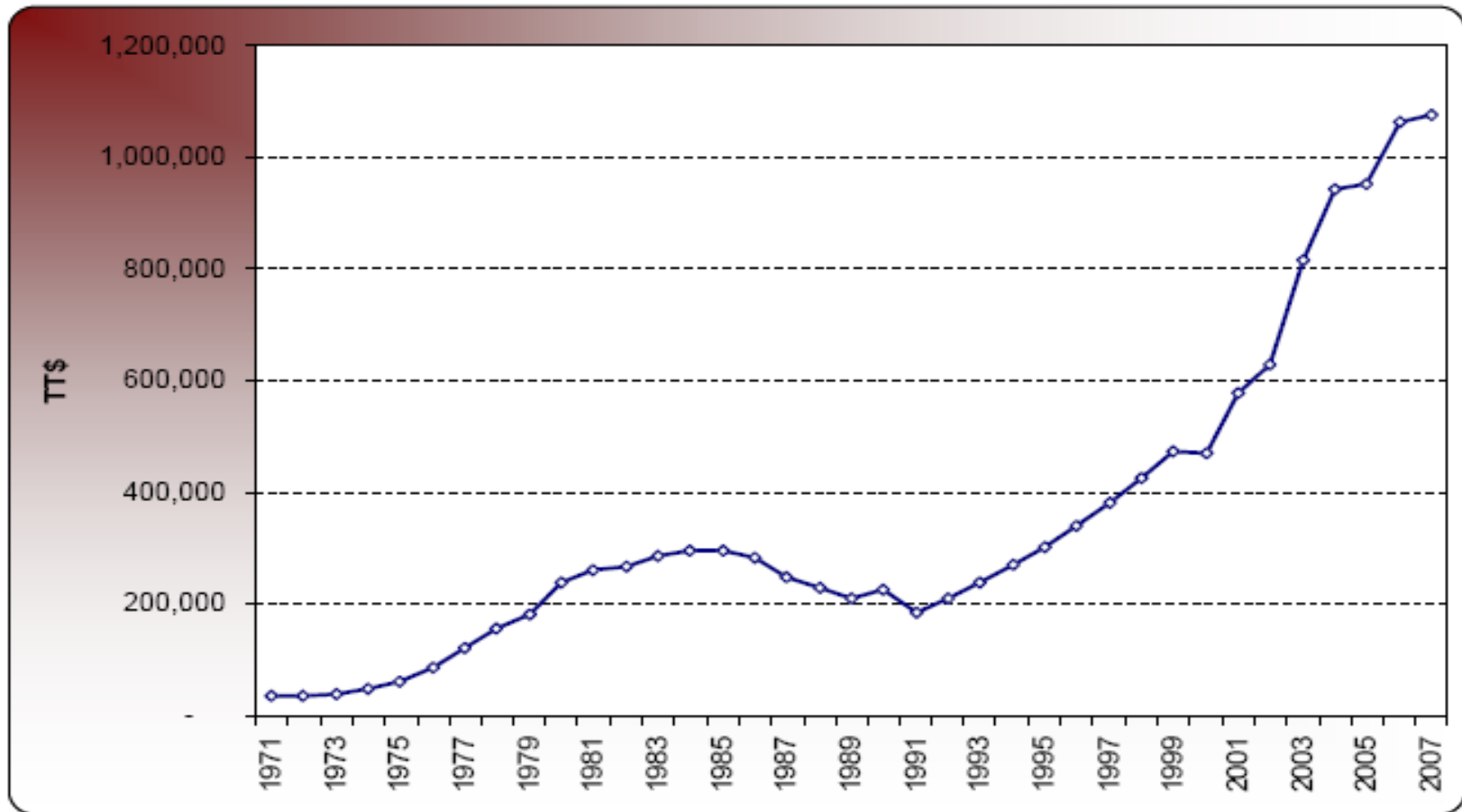
In the late 1970s and early 1980s, the Workers' Bank introduced a novel mortgage financing scheme which it branded the ***“Varinstall Mortgage”***. It provided for loan amortization with the initial deferment of the repayment of principal, the initial part payment of interest, and a variable amortization instalment that increased over the term of the mortgage loan

Our Own Sub-Prime Crisis

During the recession in the 1980s, the Bank eventually faced severe problems of loan default (as at April 1989 about 90% of the entire mortgage portfolio was in arrears) resulting in its technical insolvency and the ultimate intervention of the Central Bank in April 1989. The Bank was closed, restructured and re-opened in May 1989 as Workers' Bank (1989) Limited.

An Examination of the Mortgage Data

Median House Prices – T&T



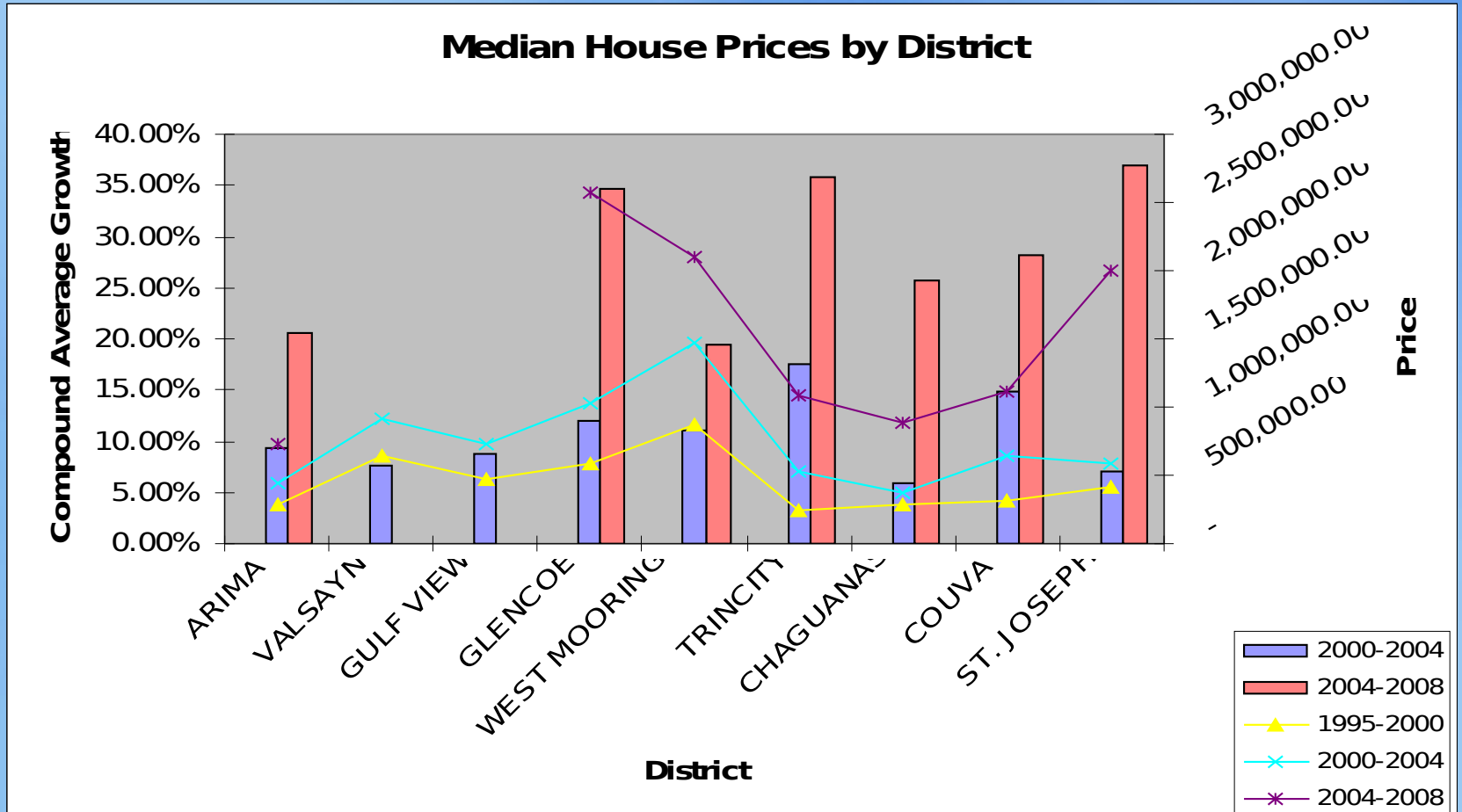
Source: Central Bank of Trinidad and Tobago

An Examination of the Mortgage Data

Estimated Median Residential House Prices –
Trinidad and Tobago - 1971 – 2006 (3-Bedroom House)

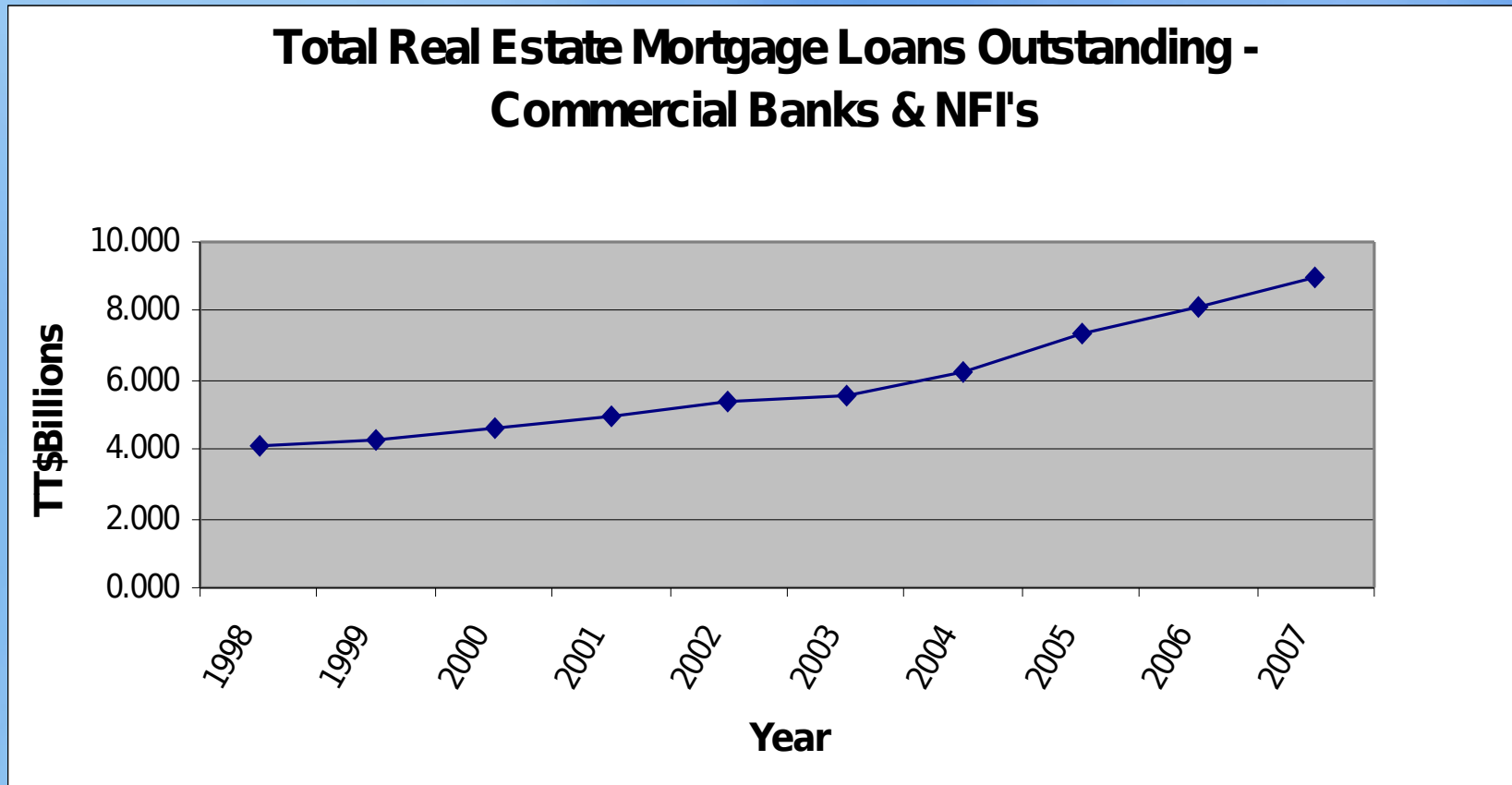
Year	Median House Price	Percentage Change (Year on Year)
1971	\$34,000	-
1980	\$237,000	30.2
1985	\$296,000	0.0
1990	\$226,000	7.6
1995	\$302,235	12.6
2000	\$511,618	7.6
2006	\$1,065,000	12.0

An Examination of the Mortgage Data



Source: Association of Real Estate Agents

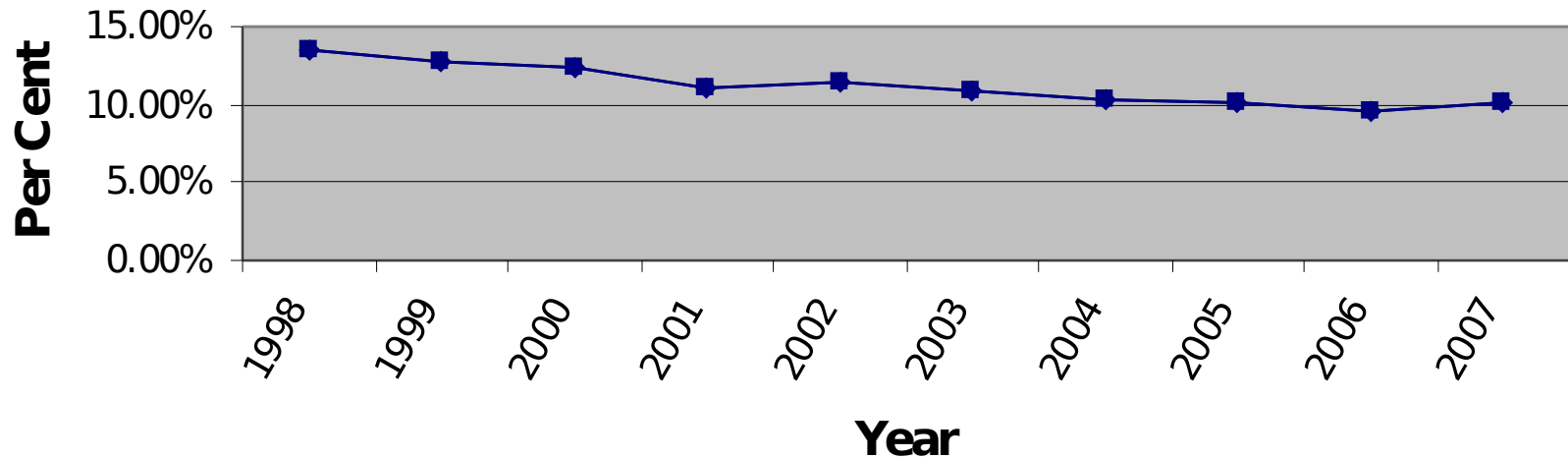
An Examination of the Mortgage Data



Source: Central Bank of Trinidad and
Tobago

An Examination of the Mortgage Data

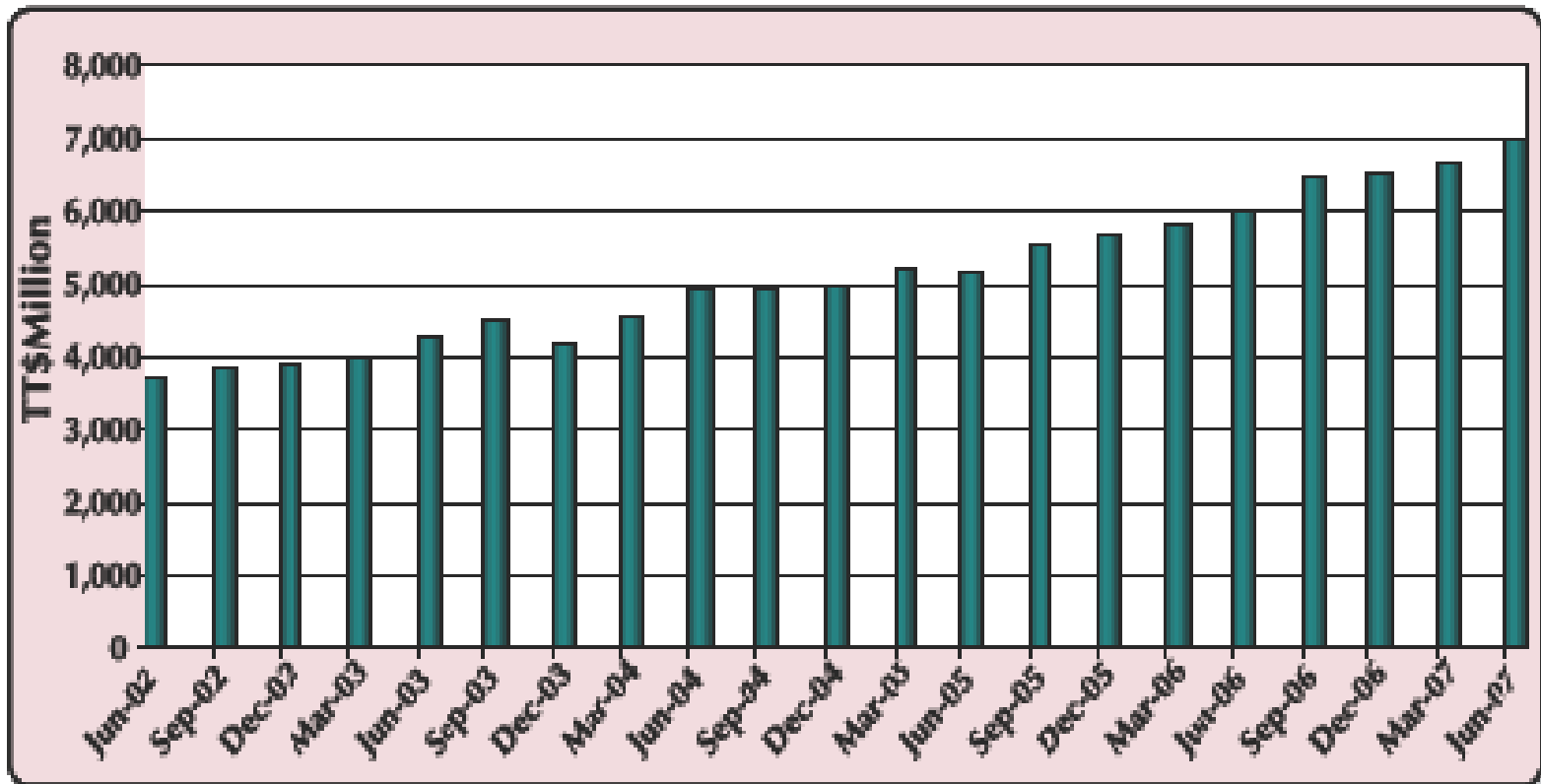
**Total Real Estate Mortgage Loans Outstanding/
Total Financial Assets as a percentage -
Commerical Banks & NFIs**



Source: Central Bank of Trinidad and Tobago

An Examination of the Mortgage Data

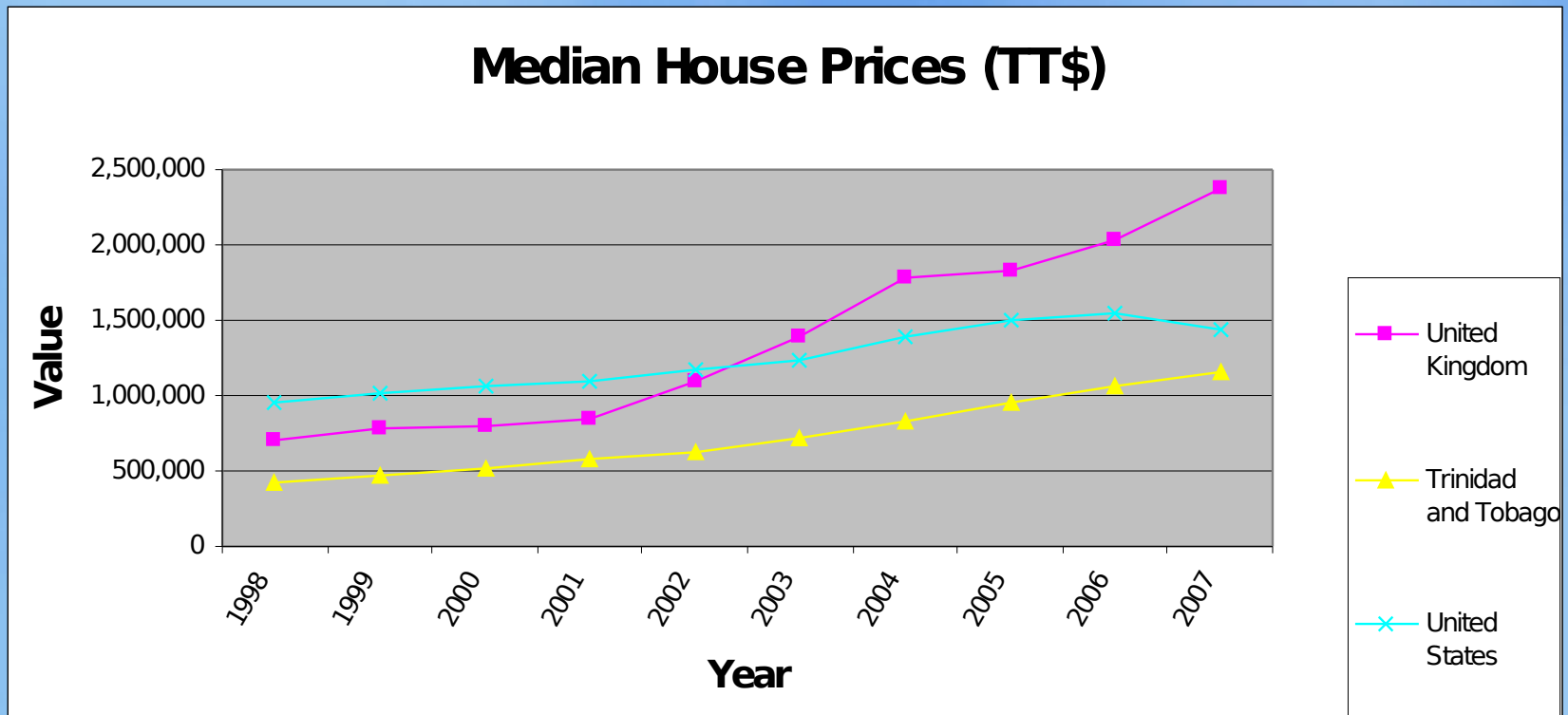
Mortgage Loans Outstanding by Deposit Taking Institutions



Source: Central Bank of Trinidad and Tobago

An Examination of the Mortgage Data

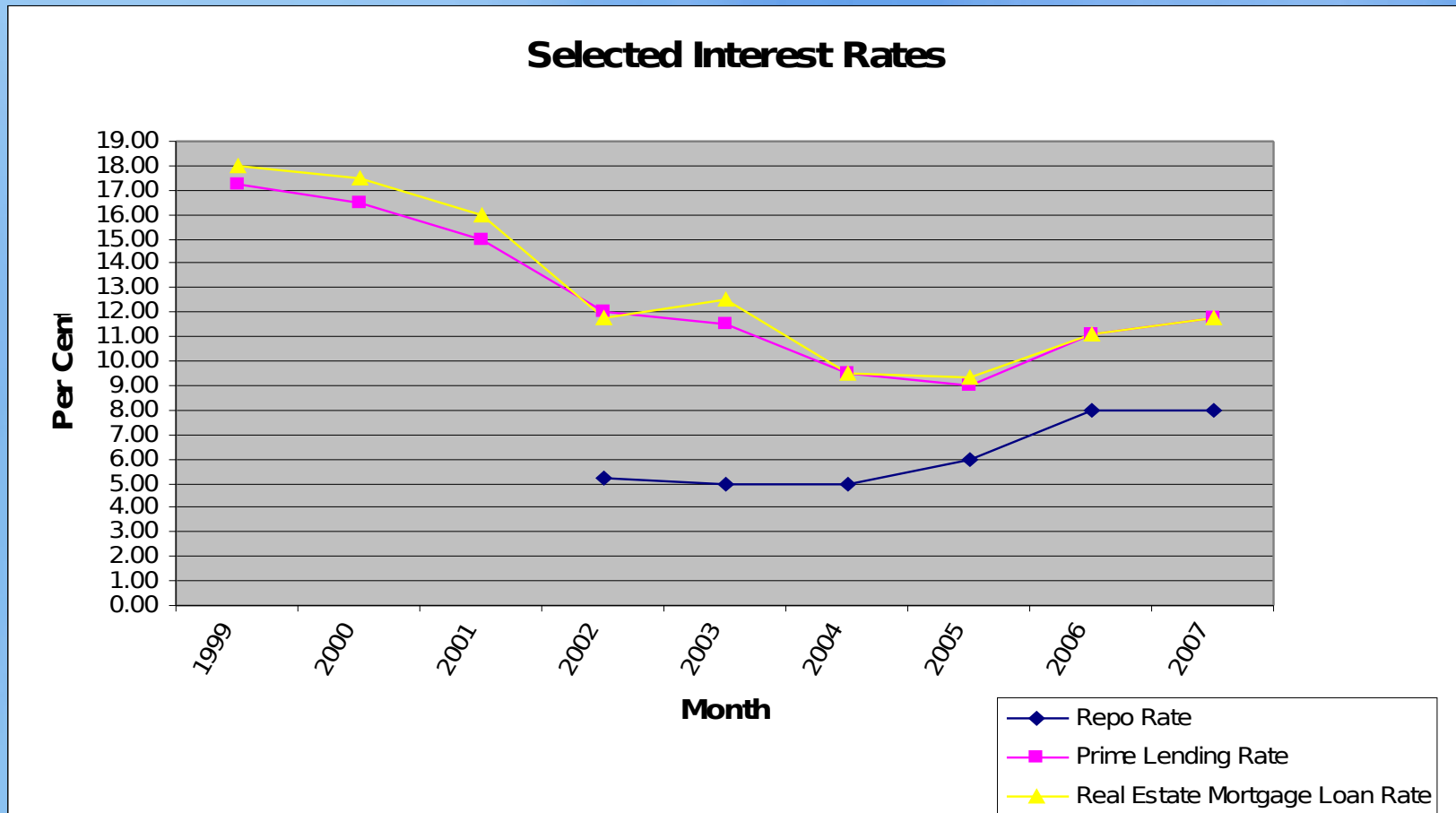
Median House Prices for Trinidad and Tobago, United States and United Kingdom



Source: Office of Federal Housing Enterprise Oversight, Nationwide and Central Bank of T&T

What Fuelled the Run-Up in House Prices

- **Low Interest Rate Environment**



Source: Central Bank of Trinidad and Tobago

What Fuelled the Run-Up in House Prices

- **Baby Boomers / Nouvean Riche / Increasing Wealth Effect**

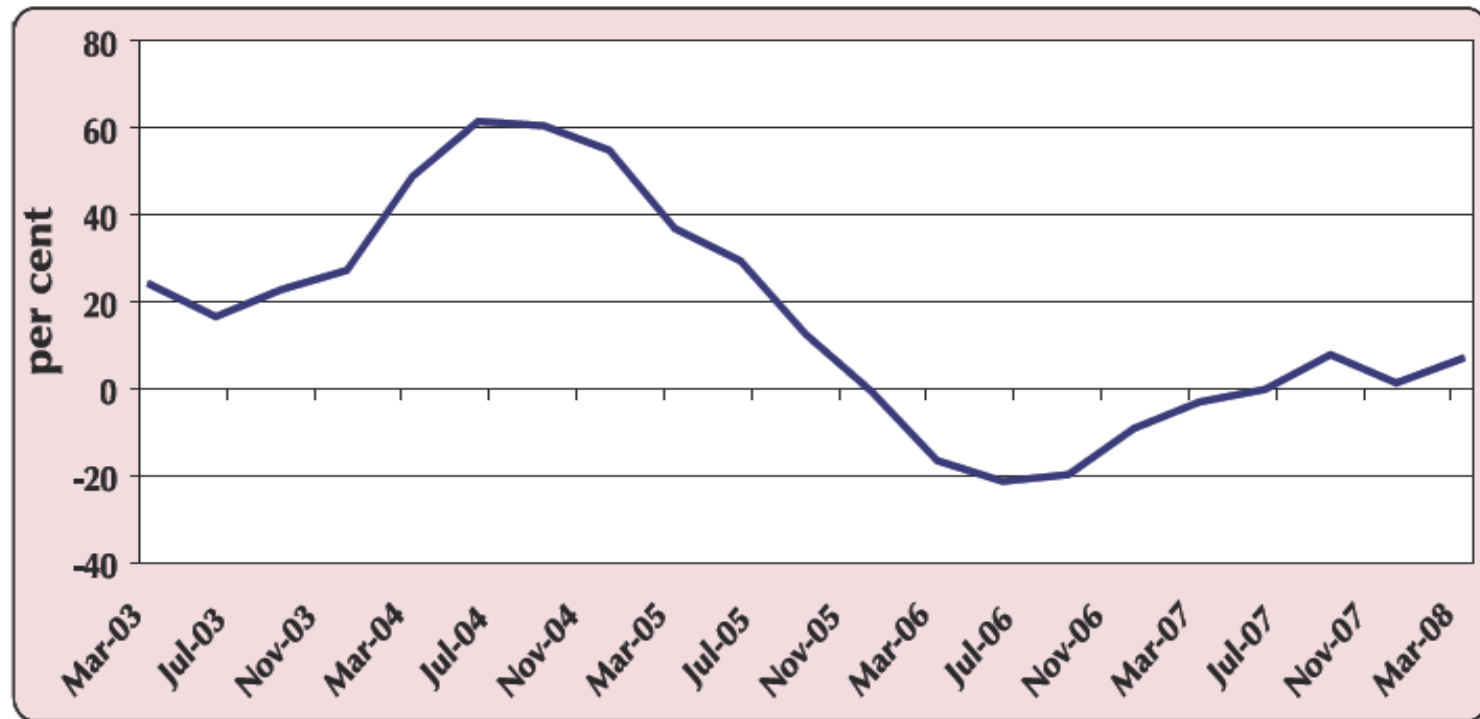
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007p
Real GDP (%)	7.48	8.98	7.25	4.20	7.90	14.40	7.80	6.10	12.20	5.50
Energy	9.08	21.50	12.40	5.59	13.50	31.40	8.20	8.40	21.40	4.40
Non-Energy	6.76	3.38	5.48	2.83	4.80	6.70	6.70	5.00	6.60	6.70
GDP per capita (US\$)	4,743.90	5,327.80	6,479.70	7,003.60	7,104.00	8,860.00	10,234.00	11,762.00	14,788.00	16,090.00
Unemployment Rate (%)	14.23	13.15	12.17	10.83	10.40	10.50	8.40	8.00	6.20	5.90
External Debt/GDP (%)	24.30	23.20	20.50	18.20	16.50	13.20	9.90	8.40	6.30	5.60
Current Account Surplus/GDP (%)	(10.60)	0.50	6.60	4.50	0.80	8.90	13.40	23.70	25.50	16.20
Gross Official Reserves (US \$Mn)	1,184.60	1,389.90	1,909.70	2,455.70	1,760.10	2,007.50	2,539.10	4,014.00	5,134.10	6,673.50

Source: Central Bank of Trinidad and Tobago

What Fuelled the Run-Up in House Prices

- **Falling Stock Prices**


Trinidad and Tobago Composite Stock Price Index
(year-on-year per cent change)



Source: Central Bank of Trinidad and Tobago

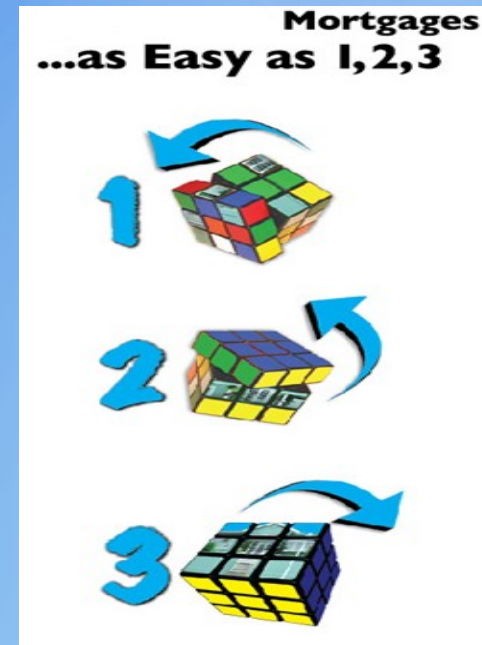
What Fuelled the Run-Up in House Prices

- **Aggressive campaigning on the part of Banks (No Downpayment / 93% Financing / Softer Terms)**



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93%
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1

2

3



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TAKE CHARGE OF YOUR FINANCIAL FUTURE

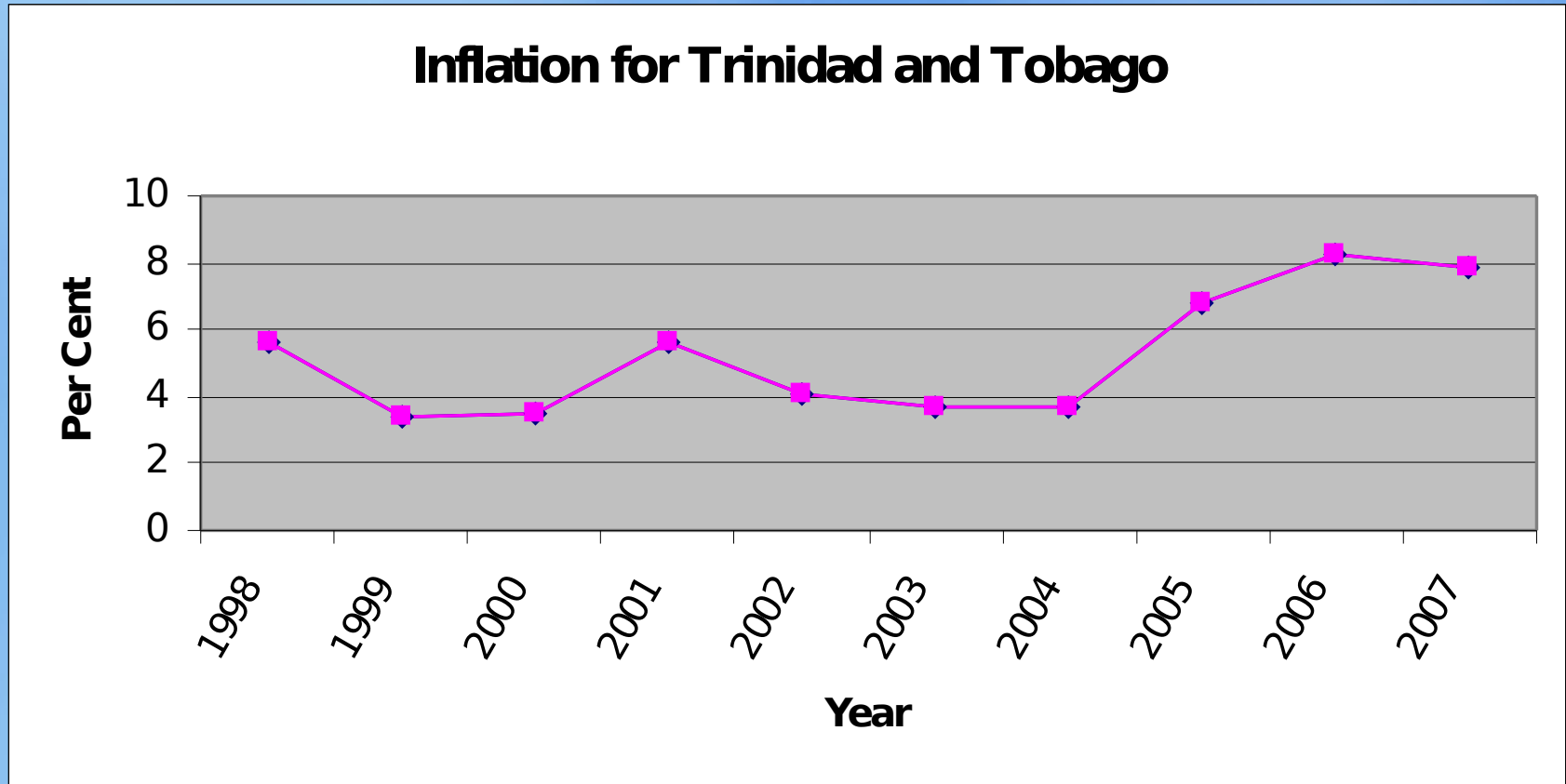
With The Mortgage Bank
PURCHASING A HOME IS WITHIN YOUR REACH

What Fuelled the Run-Up in House Prices

- Speculation
- Genuine Supply constraint
- Increasing size of the Expatriate Population associated with the growing importance of the Energy Sector (Rental/Buy)
- Pre-disposition to live in the Western Peninsula of the island / Traffic Considerations
- Limited Investment Opportunity predicated on Regulatory arbitrage for Pension Funds (cannot invest in anything else)

Have Conditions Changed

- **Concerns with Headline Inflation**



Source: Central Bank of Trinidad and Tobago

Have Conditions Changed

- Rising Interest Rates
- Falling Expatriate Population
- Over Supply
- Systemic Concerns over Sub-Prime
- Opening up of Highway/ Rapid Rail/ Water Taxis
- Concerns over Crime
- Falling House Prices in the United States (in particular Miami) may lead to speculation in these markets
- Local Stock Market Rebounding

Defining a Housing Bubble

“A **Housing Bubble** is characterized by rapid increases in the **valuations** of real property such as **housing** until unsustainable levels are reached relative to incomes, **price-to-rent** ratios and other economic indicators of affordability. This in turn is followed by decreases in house prices that can result in many owners holding negative equity, a mortgage debt higher than the value of the property.”

Five Signs of a Housing Bubble: Are we there yet?

1. RAPID PRICE INCREASE

	TTD GDP (Real)	TT Median House Price Growth Rate	US Median House Price Growth Rate	US GDP (Real)
2002	7.9	8.6	7.6	1.6
2003	14.4	15.0	7.6	2.5
2004	7.8	15.8	9.4	3.6
2005	6.1	13.9	9.6	3.1
2006	12.2	12.0	4.1	3.0
2007	5.5		-0.3	2.2

Five Signs of a Housing Bubble: Are we there yet?

1. PRICES REACH UNSUSTAINABLE LEVELS RELATIVE TO MEDIAN HOUSEHOLD INCOME

$$\frac{\text{Median House Price}}{\text{Median Household Income}} = \frac{424,000}{50,000} = \mathbf{8 \text{ Times}}$$

$$= \frac{1,100,000}{80,000} = \mathbf{14 \text{ Times}}$$

Source: CSO Household Budgetary Survey

Five Signs of a Housing Bubble: Are we there yet?

- **PRICES ARE TOO HIGH TO BE AFFORDABLE**
 - **Where would we be without Government involvement**
 - **Government committed to building over 10,000 houses per year for the next 5 years**
 - **Most of these Houses will be subsidized**
 - **Concessionary Mortgages would be provided**

Five Signs of a Housing Bubble: Are we there yet?

4. PRICE TO RENT RATIO

A Condominium bought for TT\$3.5 million will have to attract a rental income of USD4,000.00 per month to provide an 8.5% return to the owner (How sustainable is this)

5. HOMEOWNERS NEGATIVE EQUITY

Sailing Close to the Wind



- The available evidence suggests that although we may not be in a **BUBBLE**, we may be **SAILING CLOSE TO THE WIND**
- If the expatriate population continues to fall and if the Stock Market rebounds; money will move from the real sector (Housing) to the Stock Market
- This will depress House Prices

Sailing Close to the Wind

- If inflation continues to be a challenge and all indications are that it is likely to be, we can expect a further tightening in monetary policy and increasing interest rates which will further tighten the screws on the Housing Market
- We may witness Housing deflation
- As the transportation network and infrastructure improves we may see a more even distribution of house prices, with prices falling in the West and rising in the East and South of the island

Sailing Close to the Wind

- A 10 year TT Government Bond is currently yielding 8.5%
- If the Government of T&T is upgraded investors can realize a further capital gain of between 2-3% over the next 18 months to 2 years
- By contrast \$3.5MM invested in an apartment will have to generate rental income in the amount of USD4,000.00 to give a return of 8.5%. **This does not include the following ancillary costs:**
 - Routine Maintenance
 - Annual Insurance
 - Rates and Taxes
 - Facilities Management
- **We may yet end up in a situation of NEGATIVE EQUITY TERRITORY**

