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Report on the Bermuda Commercial Office Property Market Prepared July 2006

Introduction

The re-insurance and fund administration industries in Bermuda have seen significant growth since 2000. This has translated into increased demand for commercial property and in turn this has fuelled significant new office development.

Insurance market

Bermuda in 2006 now boasts over 41 insurance companies with over \$500.00 million in shareholders equity. According to the 2005 edition of Standard & Poors Global Reinsurance Highlights, of the top 40 re-insurance companies 13 are now based in Bermuda with the Island now ranked 4th re-insurance domicile after Germany, USA and Switzerland. The incorporation of 12 new companies approved by the BMA in the post-Katrina and 2005 hurricane season have a combined capitalization of \$10 billion. These companies include Arrow Capital, Amlin, Ariel Re, Ascendent Re, Cyrus Re, Flagstone Re, Flatiron Re, Harbour Point, Hiscox (Bermuda), Lancashire, Newcastle and Validus Re.

The current trend will see an acceleration of future incorporations in Bermuda as its status as a re-insurance centre increases. This will generate further opportunities for the growth in demand of office rental space.

Office market

This new demand coincided with the addition of extra new office supply with a consequence being the absence of any significant vacancy in the City of Hamilton. The completion of the Waterfront complex Phase 2 on Pitts Bay Road, additions to the Bacardi building, the Ace / XL complex and other projects added approximately 476,000 sq.ft bringing the total office space to over 3,000,000 sq.ft. in 2001. It is estimated that some 525,000 sq.ft. of office floor space currently awaits completion with over 60% to be completed in 3-6 months. This space has been largely pre-let or is for the internal growth of existing companies. This addition represents an addition of some 17 %.

<u>New buildings currently under construction 2006</u>	SQ.FT
ALG expansion, Richmond Road (Sept'06)	120,000
Waterfront Complex Phase 3 (Nov'06)	100,000
Argus Insurance, Wesley St. (Sept'07)	85,000
AS Cooper (Retail/Offices) Front Street (Dec'06)	65,000
HWP Front Street (June'07)	65,000
Par-la-Ville Rd./ Bda. Commercial Bank (Sept'06)	45,000
St. Andrews Church, Church Street (Sept'07)	<u>45,000</u>
TOTAL Square Footage	525,000

Office Rental Growth

Re-insurance companies and fund administration companies have been primary drivers for demand for new prime office space. A prime office rent for good quality office space in newly completed buildings now exceeds \$65.00 per sq.ft. with graduated rents towards the upper floors and Penthouses reaching over \$70.00 per sq.ft.

Vacancy rates are low I believe partially as a result of stringent Bank lending policies on the financing of speculative office developments which necessitates a pre-letting of between 50% to 60% of the created new floor space. This requirement has prevented the implementation of the Stonehaven project, for instance, which received planning permission in 1998. This project proposes large floor plates of 8,000 sq.ft. and would have been attractive to the newest waves of re-insurance companies.

Demand appears to be undiminished and a relative shortage of available space is sustaining the market.