TURNER DRAKE & PARTNERS

Newsletter

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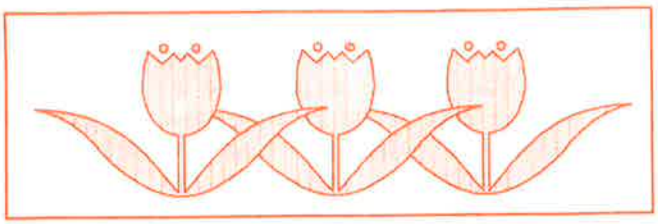
Update



Spring at last! Well almost! It's been a l o n g winter Atlantic Canada: but the birds are singing again, the crocuses are up and, if you look carefully, there is the occasional blade of green grass. OK, OK, not in Newfoundland and Labrador, but summer is on its way. What a terrific time of the year!

Throughout the four Atlantic Provinces our counselling staff are counselling, our valuers valuing and our brokers brokering. We now offer an exceptional package of integrated real estate services. We believe passionately in the team approach: we are not just a group of individuals sharing a common overhead. We provided real estate counselling and valuation advice in all four Atlantic provinces last year together with brokerage (sales and leasing) services in Nova Scotia.

Our valuation consultants offer counselling expertise extending well beyond the traditional "appraisal", the latter in most cases being so limited in scope it has no utility beyond the purpose for which it was commissioned. Once we have undertaken a valuation assignment, and have the property on file, our client has access to advice on assessment, fire insurance, rents, operating expenses and recoveries, planning, zoning, expropriation, supply and demand studies, feasibility analysis and counselling. He/she can also call on our brokerage sales and leasing specialists. We have a Property Protection Plus™ program which is specifically designed to provide clients with professional advice on an ongoing basis so that their property assets receive the attention they deserve.

We have our own training program to ensure that our professional staff have a breadth and depth of knowledge, in what is otherwise essentially a cottage industry driven by a commission system. We have a policy of recruiting B+ average and above students from Atlantic Canada universities and training them, rather than hiring "appraisers". Once the initial training is over, each member of our professional team is required to specialize in a particular field so that we can offer clients "depth" as well as breadth of knowledge. Our clients can call on the services of specialists in real estate counselling, property valuation, assessment, supply and demand analysis, sales and leasing. We can, for example, undertake an economic land use analysis of a property which is surplus to the client's operational requirements, advise how it should be developed to maximize its value, and in co-operation with a land use planner, lay out a plan for its development. If the client has a property portfolio we can undertake an asset analysis and then advise him how to optimise the assets by diversifying away non-systematic risk; at the same time using his own space requirements to best advantage if the assets are utilized as part of his firm's operations.

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TURNER DRAKE CONSULTING

Assessment - Much Ado About Nothing

Over the past couple of months, Nova Scotians have been regaled with howls of indignation from various municipalities about the high level of assessment appeals ... and explanations from the Province that taxpayers have really got it all wrong. According to the Minister of Municipal Affairs, Brian Young (as quoted in the Chronicle Herald) "statistical information that flows from Dartmouth indicates that assessments are 99 per cent of market value. Market value is the ultimate goal in assessment". Well, golly gosh, that's where the rest of us went wrong: we thought fairness was the ultimate goal. So ... if half of the assessments are at 50% of the market value, and the other half are at 150%, the average assessment will be at market value "statistically speaking" and everything will be fine and dandy? Hmm ... well we don't think so! As a matter of fact we think that sort of comment is downright misleading; some souls actually take it at face value. We find that some mortgage lenders, such as some of the banks, actually place reliance on assessments for loan purposes now. No doubt they also employ more scientific methods too ... such as disembowelling the occasional chicken and studying its entrails ... but it is a little frightening to realize that decisions of financial importance are based on nothing more reliable than the throw of a dice. Tom Mills, our Assessment Specialist, has just completed a study of assessments in the Halifax/Dartmouth area in which he compared the 1990 assessments with their sale prices:

City	Property Type	Area	Sale Price/Assessment Ratio: Absolute Range Low	Absolute Range High	Median	Mean (Average)	Standard Deviation
Halifax	**Apartments**	**Total**	**35%**	**192%**	**98%**	**102%**	**28%**
		Peninsula	42%	155%	101%	101%	25%
		North	84%	114%	104%	102%	11%
		South	35%	192%	94%	103%	38%
	Commercial	**Total**	**32%**	**132%**	**85%**	**84%**	**23%**
Dartmouth	**Apartments**	**Total**	**80%**	**189%**	**102%**	**107%**	**24%**

Source: Turner Drake Research Copyright 1990

Actually there is absolutely no way that the assessor can accurately assess properties at market value, especially non-residential properties: no matter how conscientious, hard working or skilled he/she may be. The technology and valuation techniques simply do not exist yet. That is why there is an appeal process. Assessment is a rough and ready way of generating tax revenue. The appeal procedure is an integral part of that assessment process. **It is absurd therefore to vilify the assessor because there are a large number of appeals.**

In fact, the presence of a large number of appeals suggests that the assessor is attempting to do a conscientious job: rather than, as used to be the case before the Province took over the assessment function, some municipalities assessing all properties so far below their market value that they could not be appealed, no matter how inequitable the assessment. If the politicians are really interested in addressing the situation, they could eliminate the mass of appeals at the beginning of each year by dispensing with the time limit for filing appeals (Nova Scotia & Newfoundland 21 days, New Brunswick 60 days, Prince Edward Island 45 days) and let the taxpayer appeal an incorrect assessment anytime. After all, we don't stick a guy in jail and then deny him a retrial if fresh evidence surfaces indicating that he may be innocent; now do we? Err ... well we are not going to in the future are we?

In Nova Scotia, the Attorney General Department lawyers continue to protest at each appearance we make before the Regional Assessment Appeal Board: all without avail so far. In our opinion this is a squalid tactic to nip assessment appeals in the bud by attempting to (1) deny the appellant access to adequate professional representation from a property expert (2) render assessment appeals uneconomic by requiring that the appellant employ a lawyer as well as ourselves.

Freshly Minted

Derek Hull has now officially joined our valuation staff as a trainee valuer, having recently completed his initial six month term position with us. Whilst he does not yet talk to the filing cabinets, babble incoherently at the computer terminals and generally disport himself in a similar manner to the rest of us, we are nevertheless confident that it is only a matter of time...

Derek graduated from Dalhousie University, Halifax in 1989 with a B.Comm. degree majoring in finance. He has good wind and sound teeth and is a definite asset to our employee health care program. He is of sound mind too; but we're working on that.

Property Valuation

We do Precision Guesswork based on Vague Assumptions and Unreliable Data of Dubious Accuracy provided by Persons of Questionable Intellectual Capacity.

Thanks for the contribution Bill. We realize that this little gem isn't addressed to us ... after all none of our clients are Persons of Q.I.C.

Since we became active in the real estate brokerage field 18 months' ago we have seen numerous "appraisals", most of which are meaningless and make us cringe with embarrassment to be associated, however slightly, with an industry so lacking in knowledge.

We have also been involved in a number of cases where the lawyers, brokers, etc. have been sued for errors they made, but which would have been avoided if the property had been professionally valued instead of just "appraised". We got a real chuckle out of the office building which could only be reached by helicopter because the land between it and the street was owned by a different party. Those leases which "stepped down" from \$15/ft2 to \$5/ft2 due to an error in drafting the standard lease, which had then been repeated for the entire building, also raised a smile, as did the valuable subdivision which wasn't (somebody had sold the road frontage). We frequently come across office space in leases which doesn't exist, because the building has been re-leased over time but not remeasured: expense recoveries which are permanently lost because somebody misread the leases and the time limit has expired. Then there was the greenhouse complex which had no water ... the well was located on somebody else's property ... so were some of the greenhouses!

A few years ago we prepared a synopsis, in brochure form, of the Code of Practice employed by our professional staff when they undertake a valuation assignment of an I.C.I. property. If you would like a free copy give Bonnie a call at (902) 429-1811.

<u>**Expropriation**</u>

BEWARE OF STRANGERS BEARING GIFTS

A significant portion of our consulting work involves advising clients on the compensation to which they are entitled under the various Expropriation Acts. We are usually retained by the expropriated party or their lawyer to prepare a valuation report on the various heads of claim, to assist in the negotiations, and if necessary, to give expert evidence if the matter proceeds to a Court or Board. Our valuation consultants have provided expert advice on properties in all four Atlantic Provinces covering the various heads of claim including injurious affection/severance, business and crop loss, and special economic advantage.

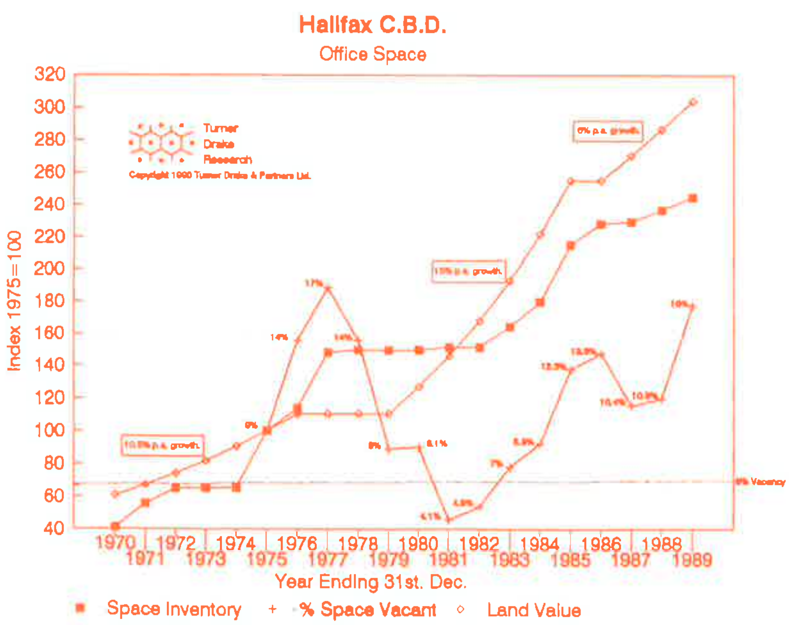
The legal, appraisal and other professional costs incurred by the expropriated party are an allowable item of claim and have to be paid by the acquiring authority. In practice this includes all of the professional advice we provide on the various heads of claim. Unfortunately most acquiring authorities prefer not to disclose this fact to the property owner. In most cases this appears to be a deliberate policy and, in our opinion, is designed to ensure that the acquiring authority purchases the property as cheaply as possible. There are some exceptions. The Federal Government appears to make a real effort to treat its citizens fairly. Some local authorities, such as the City of Dartmouth, and some provincial departments too, make a reasonable effort. However, in our experience they are the exception rather than the rule. Typically the property owner attempts to struggle along on his own because he cannot afford professional advice. Even after expropriation, it is unlikely that he will be informed of his rights under the Act. That, as one acquiring authority candidly told us, "would open up a can of worms". During the negotiation process the acquiring authority will commission an "appraisal". **This is usually not the "appraisal" contemplated by the Expropriation Act, nor typically does it meet the standards laid down by the appraisal industry's trade association, the Appraisal Institute of Canada.** It usually addresses only one aspect of the loss and ignores the rest. For example, a property owner might lose part of his front yard for a road widening scheme. His property will be reduced in value due to, (1) the loss of his land, (2) the fact that the traffic is now closer to his dwelling with the resultant increase in noise, visual intrusion, fumes, etc. Typically the acquiring authority's "appraisal" will address only the value of the land taken and will ignore injurious affection (usually the largest part of the loss). Furthermore, unless the property owner files his claim for injurious affection within 12 months of the expropriation date he loses his right to claim at all under some of the Expropriation Acts. The City of Halifax has employed this tactic for a number of years despite the fact that the less well educated, and usually less wealthy, property owner is the one to suffer most. The widening of Herring Cove Road in the Spryfield area of Halifax is the most recent example.

In addition, with this latter scheme, several expropriated owners who are losing their entire property, are entitled to a replacement home in the neighbourhood under the "home for a home" provision of the Nova Scotia Expropriation Act. All of the City of Halifax "appraisals" that we have seen so far ignore this rather important aspect of compensation. In fact we have dealt with six properties to date. In our opinion, none of the "appraisals" supplied to the property owner by the City of Halifax has been prepared in accordance with the Expropriation Act and none correctly identified all of the items of compensation:

Property	City of Halifax "Appraisal"	Correct Compensation	Items of Compensation Ignored by City of Halifax
A	$58,000	$68,000 + ±$10,200	Home for a Home Disturbance
B	$52,500	$58,000 + ±$ 8,700	Disturbance
C	$37,500	$55,000 + ±$ 8,250	Home for a Home Disturbance
D	$ 2,344	$ 4,530	Injurious Affection
E	$ 1,969	$ 4,787	Injurious Affection
F	$11,633	$25,000	Injurious Affection

TURNER DRAKE COMMERCIAL

A Time to Buy, A Time to Sell



The adage that the three most important factors affecting real estate are "location, location, and location" are as true today as ever: but the next three have got to be "timing, timing, and timing". Real estate is expensive, its acquisition is usually achieved only with the assistance of financing, so if you get the timing wrong ...

This is where we can be of assistance; whether you are buying or selling. Real estate is dynamic, all the more so if it is a developed property. As a piece of undeveloped land, a site may find a market with as many different types of purchasers as there are allowable uses under the zoning by-law. Once it is developed, with an office building for example, its value will be directly linked to that particular sub-market. When there is a surplus of office space, its value will decline even if the building itself is fully leased. The sub-market is rarely controlled by the building owner unless he enjoys a monopolistic position. It is usually an external force impacting on the property value, over which the building owner has no control.

All sub-markets go through cycles with peaks of high demand/low supply and valleys of low demand/high supply. When you are buying or selling a property it is obviously advantageous to know the stage of the cycle that has been reached by the pertinent sub-market. Obviously the prime time to acquire an office building is at the start of the upswing; the time to sell is at the top of the cycle before it becomes apparent that the downswing is coming.

We track cycles for various sub-markets. Recently we became intrigued with the possibility that we might also be able to forecast land value cycles in central business districts in the major metropolitan areas in Atlantic Canada. They appeared to be a good candidate for analysis because the major determinant of demand for land was from a single source; office space. The question arose because we were advising the owner of a redevelopment site in the Halifax C.B.D. The site was developed with a small building which, being fully leased, produced a cash flow sufficient to service the mortgage and give the owner a 7% return on his equity. Land in this central business district is relatively price inelastic. The physical constraints of the harbour and Citadel Hill to the east and west, the sociological constraints of the Gottingen Street area to the north, all coupled with the building restrictions imposed by the Citadel Hill viewplanes and height bands, and the heritage building legislation, produce a land base which is very restricted in supply. Any increase in demand therefore produces a more than commensurate increase in land value. Land value increases have therefore been characterised by rapid increases, followed by a plateau, with no downward cycle during the last 20 years. Obviously it would not be a good idea to sell the property if the anticipated increase in land value, expressed as a return on the owner's equity, together with his present return from the rental income (7%), exceeded the return he could achieve from an alternate investment of commensurate risk. We needed to ascertain where we were on the land value cycle.

Demand for new office space is the demand driver for development land, since most of the land is utilized for office development. The vacancy rate in existing office inventory can be used to predict future demand for new office developments and thence land value increases. Although there is no linear statistical relationship between the office vacancy rate and the increase in land values, our trusty computers were able to describe it graphically (see graph). When the vacancy rate in the existing office inventory falls below 8% developers enter the market and start assembling land. When the vacancy has reached 6% there is considerable competition for development sites and land values start to climb steeply. As the new buildings start to come on stream the overall office vacancy rate starts to increase. However, since it takes two to three years from inception to completion, land assemblies and buildings started when the vacancy rate was below 8% continue to come on stream long after the vacancy rate has risen above that level. By the time vacancy has reached 10% to 12%, virtually all land acquisition has stopped and whatever little land continues to trade does so for very small scale projects, or for other sub-markets eg. retail, hotels, condominium apartments, which are following a different development cycle. Land values have now reached a plateau, or are rising only slowly. They will not experience another major increase until all of the surplus office space generated by the recent expansion in inventory, is absorbed, developers have finished licking their wounds and the vacancy rate has again fallen to the 6% baseline. At this point the cycle starts again. A complete cycle takes about 12 to 14 years.