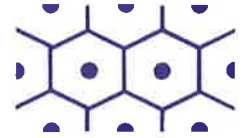


Newsletter



Vol. 2. No. 37

Summer 1990 (at last!)

Update

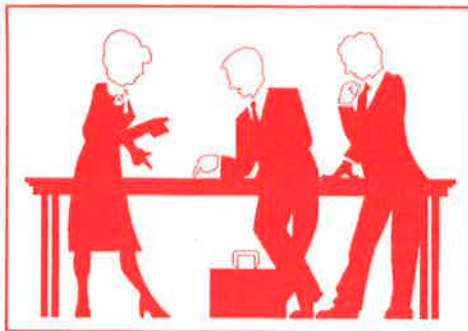


The world is shrinking by the day. The first year of our ten year free trade countdown with the USA has already gone. In Europe the collapse of the Eastern Bloc is proceeding at breakneck pace. 1992 was heralded as the big trading event of the decade with the dismantling of the last trade restrictions in the European Economic Community. Given the way that countries such as Eastern Germany, Poland, Hungary and Czechoslovakia are coming into the western fold, it

promises to be an even more dramatic event than its architects could ever have dreamed. In the Far East, the Four Tigers of Asia, Japan, Taiwan, Korea, and Hong Kong are a formidable competitive force. Even in the Soviet Union, the former bastion of communism, McDonalds now graces the Moscow streetscape. It all adds up to a much more competitive world; a world in which the pace of change is escalating at an increasing rate; a world in which we will all have to work smarter to survive.

In this issue of Newsletter, we demonstrate through a series of vignettes, how Atlantic Canadian companies from Saint John to St. John's utilize our services to manage their property assets more effectively. We appreciate that few CEO's like to be told how to manage their business. However we trust that the subtle manner in which we have handled this delicate topic will not detract from our getting the message across ...

Counselling Corporate Canada



Company Presidents, Vice-Presidents, CEO's, Chairpersons of the Board ... wake-up you loathsome lot of property incompetents. Pin back your ears ... listen ... you idle bunch of real estate ignoramuses! The world is getting smaller and more competitive every day, yet most of you devote less attention to your most important asset, than to your pet Cadillac. There's no excuse you miserable lot, not when you own property in Atlantic Canada ... you've got us! That's

right! We are nowhere else in Canada ... so get off your corporate butts and take advantage of us ... or we'll move to Japan!

Most companies are too small to have a property department staffed by specialists with the diverse skills necessary to form an asset management team, so their property is left to take care of itself: despite the fact that it is often the firm's most valuable asset.

Over the past 14 years we have painstakingly assembled a team of property experts with specialist skills in assessment, valuation, real estate counselling, supply and demand analysis, sales and leasing. All ten of our ICI professional staff have a solid background in real estate counselling and property valuation. All but our president, and our assessment expert, joined the firm as a trainee, most as upper level graduates from Atlantic Canadian Universities. We trained our own professional staff because the facilities for doing so are not generally available in Canada. However our concept of real estate counselling is applied successfully throughout the rest of the western world and we have proved it to be very successful here in Atlantic Canada. We are not academics; we provide practical solutions to asset management. We are trained to analyze property with the objective of maximizing your firm's assets.

Tax Loss Control - Assessment Appeals



In Halifax-Dartmouth wise shoppers shop Capitol Stores! Where do Capitol Stores shop? You've guessed it! For the 11 years prior to their takeover by Atlantic Wholesalers we provided real estate advice to Metro's smartest grocer, ensuring that their property assessments were kept low, like their grocery prices. Now we provide the same services to Atlantic Wholesalers on their numerous properties throughout Nova Scotia and New Brunswick.

Company Takeovers



When N.S. Tractors & Equipment Ltd., Nova Scotia's 'cat' dealer went prowling on the acquisition trail, finally merging with New Brunswick's Tractors & Equipment (1962) Limited, they called on us to value the latter's property assets.

We've provided N.S. Tractors with real estate counselling and valuation advice on a continuous basis since 1978.

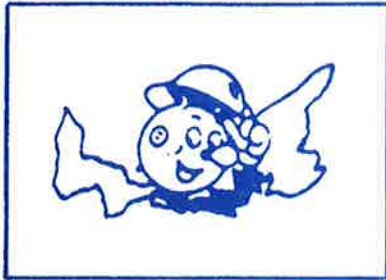
Asset Analysis



The Sisters of Charity of Mount St. Vincent de Paul own a superb 80 acre site overlooking Nova Scotia's Bedford Basin. The Motherhouse, located on the land, is the North American headquarters of the Order. This magnificent building contains 420,000 ft², almost 10 acres of floor space, is located in the middle of the site and shares its power plant with Mount Saint Vincent University. The Sisters asked us to value the property. The challenge was to work out a development which would utilize that portion of the Motherhouse

that was surplus to the Order's requirements, yet at the same time maximize the value of the remaining site. We identified the uses which would maximize the building's value and then, after extensive consultations with the municipal planning authority, laid out a concept plan for the site.

Acquisition Advice



Maritime Electric Company Limited, Prince Edward Island's electricity utility, wanted to build a 22 kilometre long transmission line from Borden to Sherbrooke. Their right of way was to cut through farm land, subdivisions, residential properties and potential development land. Our agricultural specialist advised them on the compensation to be paid each of the property owners affected by the transmission line and assisted them with the subsequent negotiations.

Portfolio Valuation



Investors Group of Winnipeg, Med-Realty Inc. of Ottawa, First City Development Corporation Ltd. of Toronto are just some of the funds that call upon us to value their portfolios each year to satisfy the requirements of the various provincial securities commissions. Our valuation staff have the experience and qualifications to satisfy the requirements of the Ontario Securities Commission and their provincial counterparts throughout the country.

In addition we provide the investment companies' local managers with advice on assessment, fire insurance, rental rates, operating expenses, leasing and sales.

Disposal



Hoyts United move the Maritimes ... now Newfoundland too. Recently they have expanded aggressively, taking over several other moving companies. In so doing, they also acquired surplus property. We have provided the Hoyts Group of Companies with real estate counselling, assessment and valuation advice on their Nova Scotia and New Brunswick properties for the past 8 years. Not surprising then that they turned to our brokerage division to assist them in disposing of their surplus property.

Leasing



The Centennial Group of Companies have developed many of Halifax's finest office buildings and hotels. When a major lease with a rent review clause fell due recently they called upon us for rental advice. We have provided similar advice to many landlords and tenants over the past 14 years, often acting on their

behalf if the matter proceeded to arbitration, or negotiating for them with the other party.

Balance Sheet



When CanWest Trust Company of Vancouver, British Columbia wanted an expert opinion on the value of a 255 acre subdivision in Newfoundland they called on our services.

All major centres are within 80 minutes' flying time of our Halifax base and we undertake work in all four Atlantic Provinces on a multitude of property types.

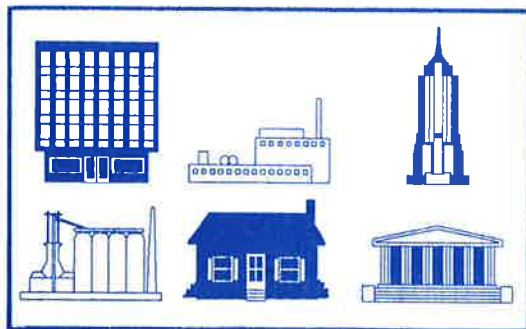
Planning Restrictions



Brenhold Limited own a prime development site which is located opposite Halifax's Public Gardens. Despite strenuous efforts to accommodate citizens' groups concerned with the impact of any development on the formal Victorian gardens, an old apartment building on

the site was slapped with a "heritage designation" by the Province of Nova Scotia. Brenhold's legal advisors, the prestigious firm of MacInnes Wilson Flynn Wickwire retained us to compute the financial impact of the heritage designation on the development potential of the site.

Portfolio Diversification



We offer members of our Property Investors Club™ the opportunity to purchase a starter kit which includes a series of technical papers called PICFACTS. These papers were written by ourselves and are designed to be used as tools to aid in the evaluation of potential investments. PICFACTS are written as far as possible in non-technical language. They range from explanations of the various terms used in real estate analysis, to demonstrations of the very sophisticated analytical techniques now in use. Several PICFACTS cover "portfolio diversification".

Recently we had an enquiry from a company with a large property portfolio which served the twin functions of providing an investment base, whilst at the same time housing many of the company's operations. The property portfolio had grown largely in response to the company's operational requirements and they wanted to know how they could maximize their investment opportunities too. It struck us that an article on portfolio diversification, based on a synopsis of our PICFACTS, could be of interest to some of you. Here we go

Building a Better Mousetrap ...or Portfolio



Property investors have a tendency to stick to a single type of property investment. For example, small investors generally prefer apartment buildings and ignore other investment opportunities in industrials, retail or office. Part of the rationale for this behaviour may be that the investor prefers property in which he feels he has a measure of expertise. A small investor may feel more comfortable with apartments because their management and leasing fall within his orbit of experience, but retail ...! The investor may rationalize that, by behaving in this manner, he is reducing risk. In certain limited circumstances there may be grounds for this type of rationalization e.g. where good professional management is unavailable. However, in most cases, this type of rationalization is just that rationalization. By thus limiting his investment

opportunities, the investor is foregoing the chance to reduce his risk by portfolio diversification. By careful investment in a well balanced portfolio the investor can eliminate the portion of risk called "diversifiable" or "non-systematic" risk.

Property diversification is the process of investing in properties whose individual cash flows are either not correlated, or are negatively correlated. The concept is relatively simple. Don't create a property portfolio comprising the same types of apartment buildings in the same locality: they will all be effected in a similar manner by socio-economic forces external to the property. If you are hell bent on investing solely in apartment buildings, don't place all your eggs in the same basket. Better still, invest in different types of property, eg. industrials, retail, etc. Then, if the government introduces residential rent control, it will only effect part of your portfolio. In some cases, even the acquisition of a property whose cash flow is positively correlated with the remainder of the portfolio may actually reduce the "riskiness" of the overall portfolio so long as the correlation is less than perfect positive correlation ie. $\rho < +1$. ("Correlation ρ " is the degree of statistical relationship between two variables, eg. cash flows. It is measured on a scale of "+1" to "-1", where "+1" denotes perfect positive correlation, "-1" perfect negative correlation, and "0" no correlation at all i.e. statistical independence).

If you already have a property portfolio, even if it comprises a single property, and you wish to purchase another property, you can "test" whether the overall riskiness of your portfolio will increase or decrease as a result of acquiring the additional property. You do this by comparing the standard deviation of the portfolio's expected rate of return before the acquisition, with the portfolio's standard deviation after the acquisition.

It is not possible to eliminate all risk. **Systematic (market-related) risk cannot be diversified away.** It is caused by socio-economic and political events that affect the returns of all property assets. However systematic risk may be lower for certain types of properties, than for the market as a whole. For example, inflation causes the operating costs of all properties to increase but these increases can more readily be passed on to commercial tenants (particularly if they are subject to rent control).

Meech Lake Dead - Premier of Nova Scotia Announces Big Pond



Premier B of Nova Scotia today revealed his secret manifesto to the world's press. Speaking at a press conference held in the cosy informality of the living room of his ancestral split-entry, the Premier announced that he would be holding a round table conference, with himself at its head. The conference will be held in Rita MacNeil's tearoom ("the crumpets are out of this world") in Big Pond, Cape Breton, later next century.

Noting that Cape Breton has threatened to cut Canada adrift by raising the drawbridge on the Canso causeway if his manifesto is not accepted in its entirety, Premier B first lead the assembly in prayer for the Accord's success. He vociferously denied suggestions that Cape Breton's threatened action had been precipitated by the mainland getting the better of them with the Wreck Cove Hydro Electric project.

Explaining his choice of venue, Premier B said that Meech Lake had been doomed to failure from the start since hardly anybody knew where the place was: Big Pond on the other hand ...

A key point of the Premier's manifesto was the implementation of a unilingual policy from coast to coast. Explaining his choice of Gaelic as Canada's single official language, the Premier said that he spoke it. If that wasn't enough, then it was because there was a real danger to democracy at the present time since most Canadians understood at least some of the broken English and garbled French used by their elected representatives and actually expected them to fulfill some of their promises, which of course they couldn't afford to do, especially at Colonel Crow's interest rates.

After the conference a beaming Premier B noted that it had been a great success. Apart from that tiresome reporter from the Scotsman, there had been no questions; the world's press apparently being stunned by his initiative. He confirmed that it was his intention to conduct all of his future press conferences in Gaelic too; his government's budget speech as well.

Premier B then swirled off in a rush of kilt to Newfoundland, there to meet with Premier W to discuss the upcoming Quidi Vidi Quorum. After that he expected to meet Premier Mc in New Brunswick to hear about the Riviere Kouchibouguac River Revival, then he was helter skelter to Prince Edward Island to listen to plans for Premier G's Douses' Creek Consensus.

Meanwhile, back at the store, Colonel Crow took advantage of the excitement and quietly notched up his interest rates another half point.