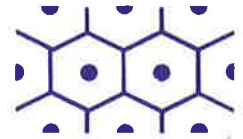
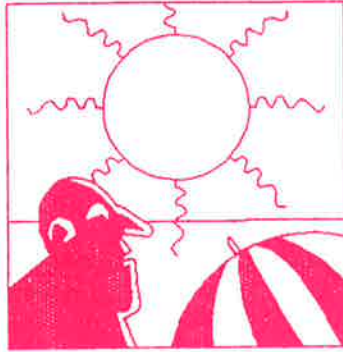


Newsletter



Vol. 2 No. 40

Summer 1991

UPDATE

The news is out: the recession in Canada is over! Is it? We presume that StatsCan et al are referring to Ontario. Here in Atlantic Canada our most optimistic assessment is that we are bumping along the bottom...and are likely to be doing so for quite a while yet. True, there was a spurt of activity in the Spring but that was more of a catspaw than a gust, and it died in the heat of the summer.

Now, these newsletters are intended to be cheerful affairs, after all you can get your fill of the gloomy stuff from any newspaper so we hate to be the ghost at the feast, but let's face it there is more blood yet to be spilled on the boardroom table (well red ink anyway!). Some, unfortunately will result in the bankruptcy of the firm concerned.

Keddy's, the hospitality group with eleven hotels/motels containing 1,485 rooms in Nova Scotia and New Brunswick, a recent victim, reportedly blamed some of their woes on the effect of the Atlantic Canada Opportunities Agency grants program. In fact, we warned (Newsletter Vol. 2 No. 32 Spring 1989) that the impact of the ACOA program "has been to erode the asset base of many manufacturing companies in the four provinces" and noted that "since grants of up to 50% of the capital cost of buildings and equipment are available for a new facility, the effect has been to depreciate the value of existing facilities. Given the opportunity of acquiring a new already erected facility, purchasers are faced with the fact that they can create the same facilities at half the cost with the assistance of a 50% ACOA grant. The latter consideration governs the price that they are willing to pay for existing buildings".

Unfortunately the situation is much worse now. Many of the companies funded through ACOA, and those unable to compete with them, have fallen victim to the recession. As a result Atlantic Canada is littered with vacant buildings for which there is no demand. Many are too large to sustain a viable operation unless it is subsidized through a government grant. Even when the recession lifts it will be years before the buildings presently occupied by viable enterprises become obsolete to the degree that demand is released to absorb the surplus space.

In some areas, there was a massive increase in the supply of hotel rooms funded by government grants. Sydney, Nova Scotia, is an example, the supply grew from 537 rooms in 1986 to 851 rooms in 1990, an increase of 58% over a four year period! Since there was no commensurate increase in demand, Sydney now has 1.5 rooms chasing each room of sustainable (non-recession year) demand. This would be bad enough: unfortunately however, the 58% increase in supply does not simply translate into an evenly spread 37% reduction in hotel values; nor in all probability a global reduction of just that amount either! Hotels/motels have a high degree of operating leverage. In the long run of course they can reduce their fixed costs, but in the interim they starve to death because their cash flow is often insufficient to service their fixed and variable costs. Add to this problem the fact that most property is levered further because of financing, throw in a recession and you have a recipe for financial failure. The newer hotels operating with lower (subsidized) fixed costs will survive. The remainder will continue to go out of business. In Sydney, for example, this will continue until 314 rooms are removed from the market and equilibrium is again reached.

Most businesses fortunately do not rely on cash flow from their real estate to the same degree as hotels/motels. Nevertheless, the grim fact must be faced that many enterprises outside the major metropolitan areas in Atlantic Canada, now operate out of premises with a market value which is less than that shown on their balance sheets. Many more are carrying financing which is well in excess of the current market value of their real estate. Indeed many of these properties are now worthless since they compete with modern, vacant ACOA funded buildings. Many of these businesses will face funding problems when their mortgages fall due.

There is a silver lining to this particular cloud. If you own real estate which has been affected by overbuilding: our Property Tax Division should be able to alleviate your real estate and business occupancy tax bills through a successful appeal.

PROPERTY TAX DIVISION



If you own an industrial, commercial or hospitality property which was funded by ACOA, or which is affected by other properties funded by ACOA you are probably overassessed for real estate and business occupancy tax purposes. You should talk to us **now** - don't wait until the new tax year. It is to your advantage to allow us to undertake our work before you have appealed the assessment...there is then no chance of the assessor increasing the assessment if it transpires that your property is underassessed. Call Tom Mills at (902) 429-1811.

Between a Rock...

St. John's, Newfoundland apartment owners, expect your properties to be reassessed for the 1992 tax year. The reassessment should be based on the income earning capacity of each property and we anticipate that the assessment authority will request details of your property's income and expenses. The assessor's request should be complied with otherwise you lose your right of appeal. We can provide you with advice on completing the information request forms (for a fee...not for free!).

Commercial property owners watch your tax rate: we expect it to increase next year as the Province moves more of the financial burden over to the municipality following the 1991 amalgamation of St. John's with the adjacent municipalities.

And a Hard Place...

Nova Scotia manufacturers, you lost your rebates on manufacturing and processing equipment in 1991, the Province no longer picks up the tab. However, not all equipment is assessable; if you are in doubt we can advise you.

What do we cost?

These are a sample of the tax savings we have achieved so far this year, together with the fees we charged:

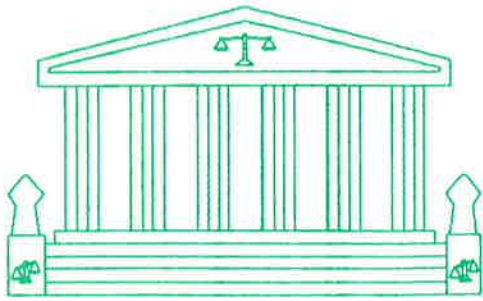
Location	Type of Property	1991 Tax Savings	Fee
Nova Scotia	Supermarket	\$ 21,762	\$ 2,398
	Office Building	\$ 19,062	\$ 1,647
	Shopping Centre	\$ 22,488	\$ 1,261
	Land	\$ 24,860	\$ 1,080
	Industrial Building	\$ 26,472	\$ 2,644
Newfoundland	Office Building	\$ <u>7,408</u>	\$ <u>2,750</u>
Total		\$122,052	\$11,780

Since all of the tax savings fall down to the "bottom line", each \$1,000 saved in taxes increases the market value of the property by approximately \$10,000 (assuming a capitalization rate of 10%)...so we added about \$1,220,520 to the market value of these six properties for a total cost of \$11,780. Now that's a return of 10361%...which has to be one of the better investments around these days...

CONSULTING DIVISION

Mainly for Lawyers (Expropriation)

We have received a number of requests from lawyers in various parts of the region asking if we would be prepared to mount an information session on expropriation. The request is usually accompanied by the comment that expertise on compensation issues for expropriation is not available locally and as a consequence the lawyer has to rely on a real estate appraiser or broker. The lawyer is subsequently at a disadvantage when attempting to negotiate with the acquiring authority. We have a great deal of sympathy with both the lawyer and his/her client under these circumstances. Identifying the various heads of claim and quantifying the compensation is a specialist field and while some appraisers may have a cursory knowledge of the subject, in our experience it is usually outside their field of expertise. A similar situation exists with real estate brokers and salespeople. The fact is, assessing compensation for



expropriation, or for the negotiations prior to expropriation is far removed from the mechanical process of "appraising". It requires specialist training and knowledge, particularly of case law and its impact on the various heads of claim. Our team of real estate counsellors are well versed in the intricacies of assessing compensation, and of course are veteran expert witnesses. Take a few minutes to review the following table. It was compiled in May of this year in preparation for an information session on expropriation that we mounted in New Glasgow, Nova Scotia. We wanted to compare the original offer advanced by the acquiring authority, with the final settlement, so we researched all of the cases in which we acted for the

property owner (or his/her lawyer) over recent years. No cheating was allowed, we show every case:

Original Offer	Final Settlement	Difference %	Difference \$	Original Offer	Final Settlement	Difference %	Difference \$
\$250,000	\$980,000	292	\$730,000	\$ 1,230	\$ 7,500	510	\$6,270
\$ 53,600	\$194,600	263	\$141,000	\$ 1,305	\$ 7,500	475	\$6,195
\$ 27,098	\$ 95,000	251	\$ 67,902	\$ 1,440	\$ 7,500	421	\$6,060
\$ 21,000	\$ 73,971	252	\$ 52,971	\$52,500	\$58,000+	10+	\$5,500+
\$ 2,348	\$ 54,166	2,207	\$ 51,818	\$ 2,400	\$ 6,100	154	\$3,700
\$ 25,000	\$ 75,000	200	\$ 50,000	\$ 2,895	\$ 6,500	125	\$3,605
\$ 12,200	\$ 58,800	382	\$ 46,600	\$ 795	\$ 4,300	441	\$3,505
\$ 21,345	\$ 47,000	120	\$ 25,655	\$ 1,969	\$ 4,787	143	\$2,818
\$ 25,000	\$ 47,000	88	\$ 22,000	\$ 2,344	\$ 4,530	93	\$2,186
\$ 5,760	\$ 22,000	282	\$ 16,240	\$ 4,600	\$ 6,186	34	\$1,586
\$ 39,000	\$ 55,000+	41+	\$ 16,000+	\$ 180	\$ 1,600	789	\$1,420
\$ 11,633	\$ 25,000	115	\$ 13,367	\$ 248	\$ 1,572	534	\$1,324
\$ 2,080	\$ 13,103	530	\$ 11,023	\$ 1,995	\$ 3,245	63	\$1,250
\$ 2,165	\$ 11,060	411	\$ 8,895	\$22,000	\$22,900	4	\$ 900
\$ 7,500	\$ 15,000	100	\$ 7,500	\$ 1,500	\$ 1,631	9	\$ 131
\$ 3,000	\$ 10,000	233	\$ 7,000	\$ 4,800	\$ 4,800	0	\$ 0

In reviewing the cases, one fact rang out. In virtually every case the acquiring authority's offer was based on a report prepared by a real estate appraiser. The report understated the compensation usually because it ignored compensable heads of claim.

If you are interested in us putting on an information session on expropriation please call Mike Turner (902) 429-1811. We are willing to travel anywhere in Atlantic Canada but prefer to "group" visits since our time is somewhat limited at present.

Mainly for Lenders (Environmental Hazards)



The recent decision of the Alberta Court of Appeal to place the cost of restoring an environmentally contaminated site ahead of the secured creditors should send a cold shiver down the spine of any mortgage lender. In the Alberta case the receiver-manager Vennard Johannesen Insolvency Inc. was ordered by the Court to pay the costs of abandoning seven depleted oil wells out of the remaining assets before the secured creditor was paid. What has yet to be resolved is the situation where clean-up costs exceed the value of the defunct creditor's assets. However, if Canada follows the United States' experience, lenders could find themselves liable for the clean-up costs. Environmental Watch, a publication of the Appraisal Institute, noted in its Spring 1991 issue that "examples abound of naive buyers taking title to property

requiring a multimillion dollar cleanup or of banks foreclosing on land that suddenly becomes a tremendous liability". The Institute notes that most lending institutes in the United States now mandate site assessments prior to granting loans for certain types of property and seek to minimize their risks by having the borrower receive documentation that the site is free of contamination. It does not necessarily follow of course that Canada will follow the U.S. but if it does then anybody in the chain of title has potential liability for site clean-up even though they were not the polluter or were aware that the site was contaminated. The 1988 decision by the United States Third Circuit Court of Appeals, "Smith Land

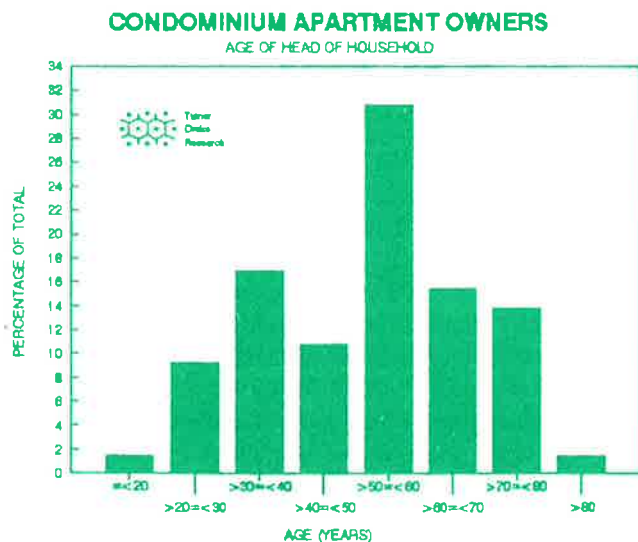
Improvement Corp. vs Celotex Corp. held that a predecessor landowner may not use the principle of caveat emptor (buyer beware) as a defence in a lawsuit brought by the purchaser seeking to hold the predecessor liable for the cost of cleaning up the property. Thus a bank that forecloses on a contaminated property and then resells it may find itself liable for the cost of clean-up. The case of the Southland Corporation vs Ashland Oil Inc. extended this principle even though the purchaser took the property "as is where is". The Court held that the "as is where is" contractual provision did not shield the seller from liability.

There are an estimated 450,000 contaminated sites in the United States: clean-up costs are estimated at more than \$100 billion over the next 50 years. There are numerous contaminated sites here in Atlantic Canada too. They include asbestos, often found in ceiling tiles in office buildings as well as in the lagging around hot water pipes; PCB's in old transformers and the ballasts of older fluorescent lights; lead and other heavy metal contamination from industrial processes; etc. The ubiquitous corner gas station is a potential source of contamination from leaking underground tanks and spillage. It can cost \$100,000 or so to decontaminate a gas station site and our Brokerage Division reports that the Canadian subsidiaries of many national U.S. companies now refuse to become involved with former gas station sites, even as tenants.

Each leader should establish a policy with respect to each and every property they intend to finance. Whilst it is probably financially impractical to undertake an environmental audit prior to entering into every mortgage there are some common sense actions you can take to help safeguard your position. Your valuation consultant is your "eyes and ears" and is constantly alert to environmental hazards. If you employ an appraiser instead, you should instruct them on what to do and what to look for. Obviously this is no guarantee; the contamination may not be apparent or may have occurred during previous uses, but it should act as the first line of defence. The second line of defence is to pray very, very hard...

If there is any suspicion that the site may have been contaminated you should insist on an environmental audit from one of the engineering firms in the region who have specialists on staff undertaking this work. We can advise you on a suitable firm.

Mainly for Developers (Condominium Apartments)



Mike Turner is in the process on completing a study of condominium development in an urban core; an analysis of the factors contributing to the success and failure of condominium apartment development. This research project is being undertaken as part of an executive MBA program at Saint Mary's University, Halifax, Nova Scotia. The study looks at twelve condominium projects located on Halifax Peninsula and its environs (including downtown Dartmouth) to determine what factors contributed to their success or failure.

The study has social, as well as economic relevance, because initially condominium development was a great success and with an aging population one would have expected this type of development to have gained momentum. Indeed this is true to some extent. Condominium

developments are now spreading to the smaller urban centres in the region, Charlottetown, P.E.I., is a recent example. Unfortunately the history of condominium apartment development in this region is "spotty"; there have been successes and failures. The latter tend to be more memorable, at least in the minds of mortgage lenders, and as a result there is a perception that the bloom has gone from the rose. We are not convinced that this is necessarily the case...hence the research study.

The project is probably the most intensive analysis of condominium apartments, their purchasers and owner occupiers, ever undertaken in this region. It includes a psychographic profile of the typical types of condominium purchaser culled from the responses to an eleven page questionnaire. It analyzes the attributes of the condominium project, the apartment itself, the location and the neighbourhood amenities.

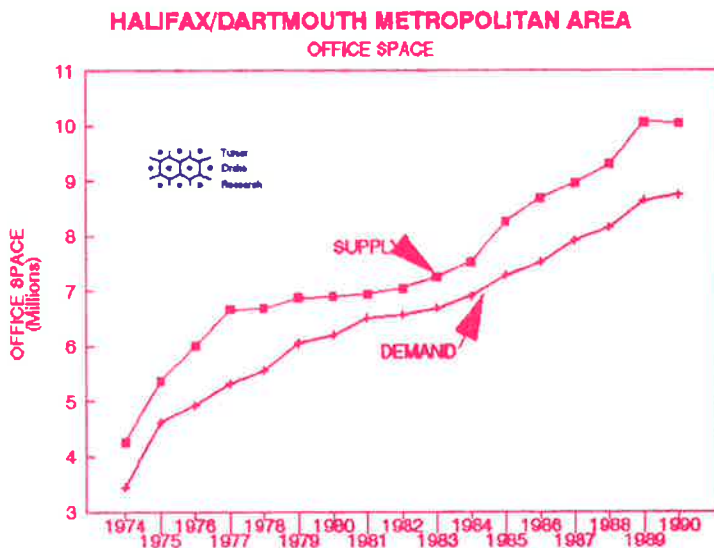
The results should be interesting because there are instances where developers have transplanted successful Toronto projects to this region and they have been a spectacular failure. We have provided advice (after the fact) on these projects using a case study approach and that empirical data suggested that Atlantic Canadians had a different value system to purchasers in Ontario. The survey, undertaken as part of the research project, allows us to measure the value that purchasers place on a view, proximity to shopping, work, etc.

We expect that the results of the research project will provide a benchmark against which you will be able to measure your prospective condominium apartment development in order to assess its probability of success. If you are interested in a copy of the conclusions please call Mike Turner (902) 429-1811. There is no charge if you are a client of ours...if you are not yet a client we ask that you make a contribution to Oxfam Canada in lieu of payment.

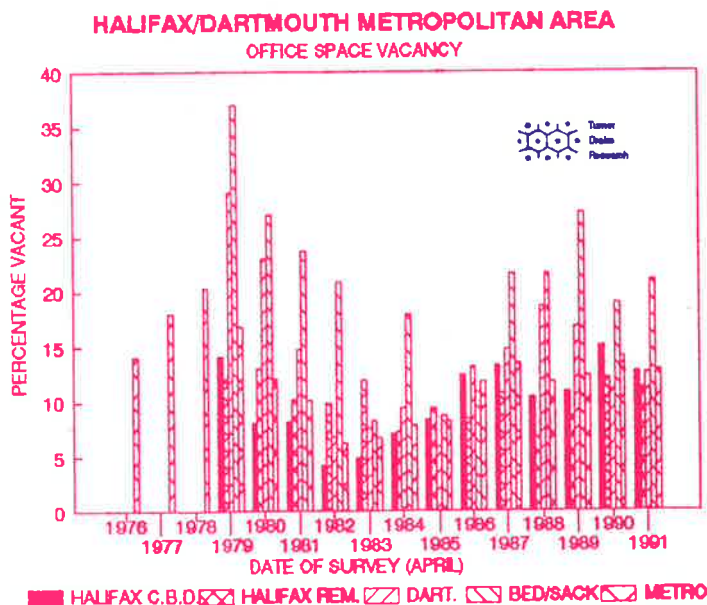
BROKERAGE DIVISION

Our Brokerage Division concentrates its efforts on selling and leasing retail, office and industrial property in the Halifax-Dartmouth Metropolitan Area. We have continued contact with real estate brokers in the rest of the region and will be glad to recommend a suitable broker if you wish to buy, sell or lease property outside the metro area.

Office Space - Not a Pretty Picture



There is an oversupply of most types of space in the metro area but nowhere is the situation so critical as with office space. The latest figures released by the Nova Scotia Department of Development and illustrated graphically are not a pretty picture...unless you are a tenant looking for space. The Halifax Census Metropolitan Area, which includes the Cities of Halifax and Dartmouth, the Town of Bedford and the dormitory suburbs of Sackville, Cole Harbour and Eastern Passage has a total population of 300,001 (at time of writing) and an office inventory of 10.05 million ft.². This is a high per capita supply, but Metro is the regional centre for Atlantic Canada and therefore has a high proportion of Federal Government and regional head office space.



The Office Space graph illustrates the growth in supply and demand over the past sixteen years. Growth in demand has followed a linear trend with a plateau during the 1980-1983 recession, and most recently during the current recession (as in many things the Atlantic Provinces are ahead of the rest of the country - our recession started in 1989!). Over the past 10 years, market absorption in Metro has averaged 255,649 ft.² per year and currently lags well behind supply. This is better illustrated in the Office Space Vacancy bar chart. The vacancy rate for Metro was 12.9% as at April 1981, and 12.7% in the Halifax C.B.D.; over double the "normal" baseline vacancy rate of 6%.

SALES - A Riot



Sorry! We shouldn't joke about these things.

Industrials - the market is very soft and if anything appears to have softened further since the Spring. There is a general lack of confidence and purchasers have yet to be convinced that the recession is over. Prospective purchasers are tending to re-lease their present space for another year in the hope that the economy will improve in the interim. Where prospective purchasers have to move, because of increased space requirements, they prefer to lease with an

option to purchase. There are a number of bargain hunters in the field looking for properties at knock-down prices.

With this lack of sales activity it is difficult to quantify the drop in industrial property values over the past twelve months. However, prices have definitely softened.

Offices - the market is very soft and purchasers (rightly in our view) shy away from any buildings with vacant space. At the low end of the market, purchasers seeking properties in the \$0.5 million range with the intention of occupying half of the space themselves and leasing the remainder have downgraded their requirements and are now seeking buildings only large enough to meet their immediate requirements.

Apartment Buildings - this market is starting to become somewhat firmer. Purchasers are willing to look at suburban locations.

Distress Properties continue to come onto the market at an increasing rate. Unfortunately the much publicised riot which started in the Halifax C.B.D. and then moved south to the Gottingen Street commercial area has dampened an already weak demand for properties in this area. We have several properties listed for sale at what, just twelve months' ago would have been considered to be bargain prices. In our (albeit biased) opinion this area has great potential for purchasers willing to speculate. If you would like information on these or other I.C.I. properties call Verna Turner 429-1811.

Leasing - Still Soft but Getting Firmer...



Office Space - in Halifax C.B.D. base rents continue to be under considerable pressure. Deals are being consummated with give-aways equivalent to two years' free rent on a five year lease in some new buildings, e.g. turnkey to the tenant plus one year's free rent. Some of the older Class A buildings are losing tenants to comparable quality, but newer space, in Dartmouth's City of the Lakes Business Park. In our view this will be a continuing trend as businesses that do not need a C.B.D. location e.g. insurance companies, forsake the downtown in favour of free parking in the Business Park. According to our trusty computer two major offices buildings in the Halifax C.B.D. are now experiencing vacancies of 31% and

40% as a result...a situation that must be sending cold chills down their owner's spine. Notwithstanding the foregoing we have experienced an increase in the tempo of enquiries from tenants who have to remain in the Halifax C.B.D., particularly those who wish to upgrade their space.

Industrial Space - activity remains at the same level as in the previous quarter. The market is still soft but there are tenants looking for space.

Retail Space - activity remains at the same level as in the previous quarter. There are many budding retailers (with little capital) looking for space.

If you are considering upgrading, expanding or downsizing, our leasing specialists can help you. We offer "one -stop" shopping: virtually all of the leasing in the metro area is on an "open listing" or "co-broker" basis and information on space flows into our computer database on a daily basis. Our leasing staff are salaried professions so they can concentrate on ensuring that you get the leasing package that best suits your requirements. Our explanatory brochure tells it all...just give our leasing department a call at 429-1811.