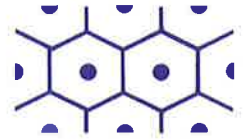


# Newsletter

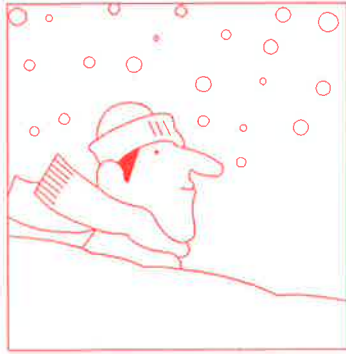


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## UPDATE

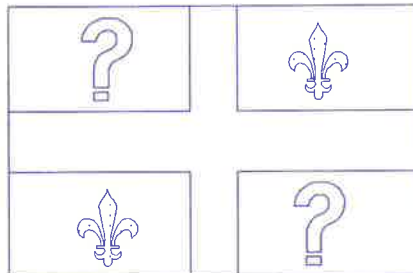
### A Look Ahead to the Third Millennium



Gee, Mr. Mazankowski, you got it wrong ... the recession wasn't over! Never mind, we weren't fooled; but then the stench of battle is a little stronger in the trenches.

We live in interesting times: The future is replete with uncertainty. Quebec (will she, won't she?), the recession, the Free Trade Agreement and the globalization of world markets, a rapidly changing world (and the concomitant metamorphosis of dinosaurs such as General Motors and I.B.M.), Provincial and Federal governments simultaneously faced with huge deficits and tax revolts: it's a script worthy of Machiavelli.

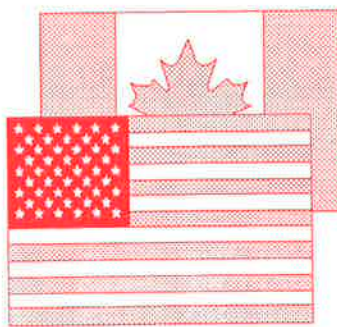
Well, fools rush in where angels fear to tread, so we feel quite comfortable in predicting the events and trends that will influence the property market in Atlantic Canada during the balance of this decade. Some of these events and trends are no more than faintly flickering images in our crystal ball, others have already occurred or are gaining in strength. All present opportunities, and threats, to the property owners of this region.



**Quebec is the wild card.** If our prediction about Quebec independence is incorrect, the remainder of our analysis will be invalid.

We anticipate that the separation of Quebec from the rest of Canada will occur de facto rather than de jure: in other words a continuation of the process that started in 1976 with the election of the Parti Québécois. The present negotiations will culminate in a further distancing of Quebec from the rest of Canada, rather than outright sovereignty. The effect of this trend to date has been to shift the financial centre of the region from Montreal to Toronto, and to a much lesser degree,

Halifax. It has not stopped the pension or property mutual funds from investing in the region. Nor, in our recent conversations with any of these funds, have we gleaned any intimation that their current investment strategy is effected by the Quebec question. (However few funds are looking here anyway at present; there are too many good deals available in Ontario!).



**The Free Trade Agreement** has simultaneously heightened awareness of Atlantic Canadians to the United States, and vice versa.

Its most visible impact has been the increase in cross border shopping: a trend encouraged by the imposition of the Federal G.S.T. and the decision of the cash hungry Provincial governments to piggyback their P.S.T. (thereby increasing the P.S.T.'s by  $\geq 0.7\%$ ). Regional shopping centres, and downtown areas in New Brunswick which are located near the U.S. border have suffered considerable loss in trade as a consequence. The figures are difficult to quantify accurately but, based on our experience with property tax appeals, we estimate that regional and community centres adjacent to the Canada/U.S. border have lost over 25% of their sales to cross border shopping. Unless the G.S.T. and P.S.T. rates are lowered, this trend will continue. The recession has devastated many retailers and the combined effect of it, and cross border shopping will result in the bankruptcy of vulnerable malls in western New Brunswick unless they move quickly to reduce their operating expenses. Our Property Tax Division is very active now in New Brunswick...

At the outset of the F.T.A. there was a spurt of activity from United States' investors wishing to invest in Atlantic Canada. Many were owners of small businesses who were approaching retirement. They were seeking properties of less than \$1 million. The recession appears to have killed this interest, at least for the moment.

We are not aware of increased activity by United States' companies or pension funds in the region over recent years. Presumably their Savings and Loan crisis affords them all the opportunities (and headaches) they need.

We are told however that there is a groundswell of interest in the U.S. to gain access to research facilities in Atlantic Canada. The region is well endowed with university and other research institutes. However due to the way they are funded, most are not orientated towards working with the private sector to produce and market commercial products. The situation is exacerbated by the small industrial and commercial base in the region which does not afford the research institutes the opportunity to capitalize on the fruits of their efforts. The lack of focus also extends beyond research. There are some notable exceptions however: Saint Mary's University in Halifax has made considerable efforts through its excellent business school to work with, rather than independently of, the area's business community. It started an executive MBA program in 1990 and has been successful in attracting some of the cream of management talent in the Atlantic region. We anticipate that there will be a rationalisation of universities, especially in Nova Scotia (it has 13 degree granting institutions serving 33,000 full time equivalent students) which may impact adversely on the student populations in those universities located outside the major metropolitan areas. There will be a concomitant impact on property values in those towns.

1991-92 TRANSFER PAYMENTS		
Provinces	Federal Payment	% Provincial Revenue
New Brunswick	\$1.4 billion	38%
Nova Scotia	\$1.6 billion	42%
P.E.I.	\$0.3 billion	46%
Newfoundland	\$1.0 billion	45%

The Federal government has run out of money. If transfer payments from the Federal government were discontinued it has been estimated that the standard of living (and living) of the provinces would fall by:

New Brunswick	20%
Nova Scotia	20%
P.E.I.	35%
Newfoundland	50%

Source: APEC

There is no indication that transfer payments will cease but we anticipate that the mindless waste of taxpayers' money that has given us such monuments to municipal Mammon as the Nova Scotia Town of Bedford's waterfront project, a 23 acre landfill in Bedford Basin to create a new town centre strategically located around a sewage treatment plant, must be about to cease. Since these projects simply redistribute demand, they do not create value. The absence of new projects will stabilize property values.

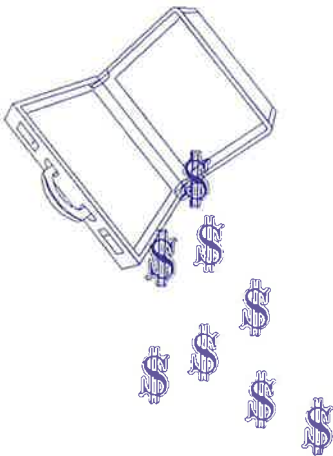
We have seen no indication yet that the Atlantic Canada Opportunities Agency grants program is to be discontinued. The ACOA program has left the region littered with vacant buildings for which there is no demand. Even when the recession lifts, it will be years before there is sufficient demand to absorb the surplus space. The effect therefore has been to substantially devalue industrial and hotel properties which are located outside the major metropolitan areas to the point where some are now worthless. It is therefore unlikely that ACOA's future activities will worsen the situation.

**The provincial governments** have run out of money. Faced with budget deficits and a taxpayers' revolt they are now taking timid steps to curb expenses.

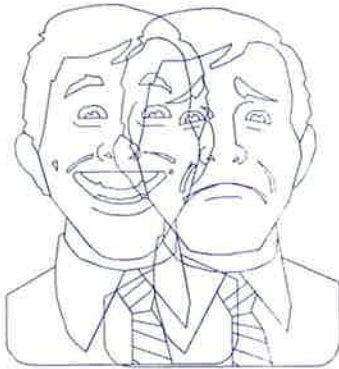
This will have a impact in each of the provincial capitals, Halifax, Fredericton, Charlottetown and St. John's as the provincial governments review (and downsize) their space requirements and become much more aggressive in lease negotiations. Halifax will be particularly hard hit because the born again Conservative government is now going to tender on its space requirements: the provincial government occupies 15% of the office space in the Halifax - Dartmouth metropolitan area. It is now taking advantage of the 12.9% vacancy rate and the recession to lease space at a 60% discount against the rental rates of three years' ago.

We also expect to see more contracting out of provincial government services and the privatization (or dismemberment) of bodies such as the liquor commissions. Newfoundland now sells beer and wine through corner stores and Nova Scotia

is contemplating a similar system. Eventually we expect to see the distribution of all alcoholic beverages through grocery stores (including supermarkets). Provincial governments intrude into many areas that can be more efficiently serviced by the private sector and their withdrawal will not only reduce costs, but also afford greater opportunities for the entrepreneurs of the region.



We expect to see the Nova Scotia government owned Sydney Steel Mill closed within the next two years ... unless there is a change of government, in which case it will receive a short reprieve.



**The recession** has taken its toll and we anticipate that the chickens will come home to roost in a major way during the first six months of 1992 as firms that have been hanging on by their fingernails finally let go. Despite appearances to the contrary however, we anticipate that the region will start to recover at mid-year. I.C.I. property which is vacant and cannot find a market with purchasers who intend to occupy all of it, has experienced a decrease in value of 50% (or more). We have seen nothing similar in the last twenty years. Many such properties only find a market with speculators willing to pay "fire sale" prices. Provided that mortgage financing is available at the current (or lower) rates, we anticipate that prices will start to climb at mid-year (unless the market is flooded with I.C.I. properties over the next six months). The next six months will therefore be the prime time to purchase this type of property.

## PROPERTY TAX DIVISION



We are pleased to announce that Tom Mills, the Manager of our Property Tax Division has now completed the requirements for the CAE designation of the International Association of Assessing officers. Tom passed the CAE examination in December. He is already an Accredited Appraiser of the Appraisal Institute of Canada. Congratulations Tom!

### Newfoundland

Owners of property in St. John's received their 1992 assessment notices in December. They were mailed on the 16th December and there is a 21 day period in which to appeal (there is no extension this year for the Christmas vacation). The base date for assessment purposes was the 1st January 1990; but even if your assessment was less than the market value on that date you may still have grounds for a successful appeal. Most of you will already have received a letter from us but if you have not, and have filed your notice of appeal, give Tom a call (902-429-1811). We intend to be active in St. John's again this year.

### Nova Scotia

Your assessment notices will be mailed on the 16th January. The base date for assessment purposes is the 1st January 1988: however, if your property has suffered vacancy because of the recession thus bringing its market value below the assessment, you will have grounds for appeal. There may be other grounds too: in fact we have identified 17 key fields in the assessment process that the Provincial assessors routinely miscalculate, misinterpret or miss altogether. If you have any concerns about your assessment you should file a protective appeal. If you wish to file the appeal yourself, we suggest the following wording:

"The assessment is excessive, unfair, not uniform with other assessments, and any other grounds that may appear".

If you wish us to act as your agent, please so state on your notice of appeal. If you prefer, we can file the appeal for you. Fax us a copy of your assessment notice (stating whether or not you have already appealed) together with your authority for us to act as your designated agent.

We now save clients about \$1 million per year in taxes. (The week before Christmas we saved a single client \$156,000 per annum - our fees were just \$5,970).

A double whammy may be on the way for all I.C.I. property owners. The Nova Scotia Government is considering making the landlord responsible for the Business Occupancy Tax (currently paid by the occupier). New Brunswick property owners already pay a single tax which combines real estate and business occupancy. The entire tax is paid whether the property is occupied or not (owners of retail malls take note!).

## New Brunswick

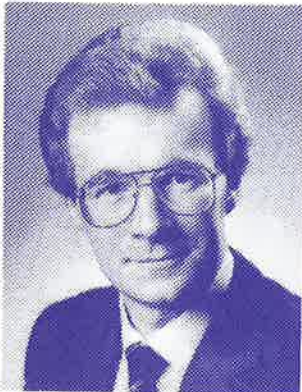
You will get your assessment notices in April. If you have any concerns about your present property assessment please don't wait until you receive your notice. There is a real advantage to you in our looking at the situation **before** the appeal period...

## Prince Edward Island

Our Consulting Division carries out assignments on the island every month but you guys (and gals...we are neuter indifferent) must like paying taxes because we have not yet undertaken any assessment appeal work there. Give Tom a call ... we can work our magic in P.E.I. too.

## CONSULTING DIVISION

### Mainly for Lawyers (Expropriation)



We are pleased to announce that Lee Weatherby has now been elected a Fellow of the Royal Institution of Chartered Surveyors, the international body of the real estate profession. Congratulations Lee...and ne'er a grey hair in sight!

Lee is currently engaged in extending our expropriation practice to Newfoundland (legal beagles there please note!). Our Consulting Division has been extremely busy this year with expropriation work and can claim with some merit (we think) to have a depth of expertise which is not available elsewhere. Expropriation is something which appears to come along but rarely for most lawyers. This is unfortunate because real estate appraisers and brokers often have only a cursory knowledge of the subject and are not equipped to identify and quantify the various heads of claim. However they are usually the first avenue to be employed by the legal representatives of the expropriated party and as a consequence we are often called in after a considerable amount of frustration, nervous energy and money has been squandered on a fruitless pursuit. Local knowledge is valuable and we do work with local appraisers and brokers but identifying and quantifying the compensable heads of claim requires specialist knowledge and experience. Unfortunately the acquiring authorities tend to rely on their own staff or appraisers/brokers. We have analyzed their offers and although there is a statistically significant relationship between them and the final settlement, there is a large variance: in fact the final settlement actually ranged between 1 and 23 times the original offer (the average was 3.9 and the standard deviation 3.9). **In other words you should attach no credibility to the offer by the acquiring authority even if it is supported by an "appraisal"...using a pin to ascertain the compensation is just as accurate.**

### Mainly for Lenders

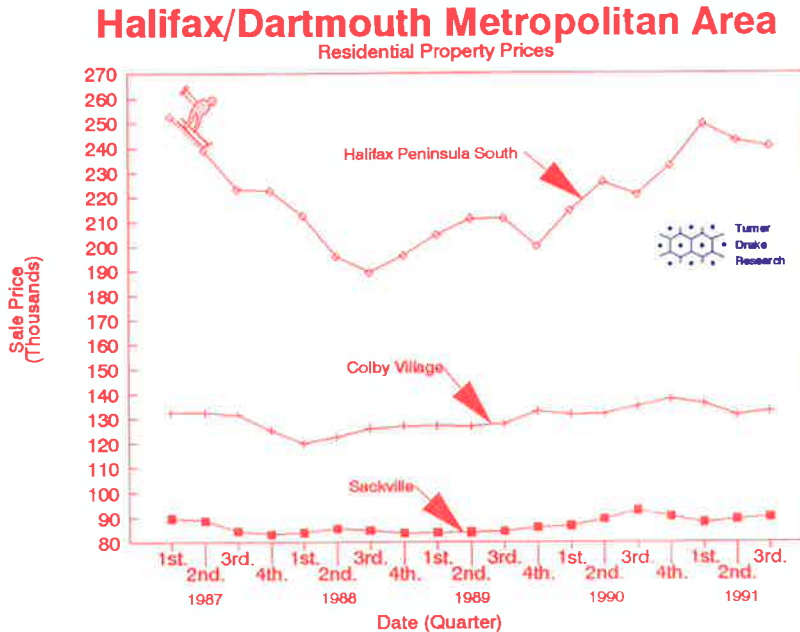
#### I.C.I. Property

It is foolish to foreclose **before** you get professional advice. A number of you are approaching us after foreclosure to find out the market value of the property. You are putting the cart before the horse. In many cases, particularly if the building is, or will be, vacant after foreclosure your optimum course of action will be to write down the mortgage, or to allow deferment of payments until things improve (by mid-year we hope!). If the property is placed on the market with vacant possession it may only sell for 25% to 50% of its pre-recession value. If you end up with a property **do not go to tender**: give it to a reputable broker and be patient. We appreciate that you may have no choice but to go to tender under some of the provincial Bankruptcy Acts. If the property is the prime asset of the insolvent company you may wish to consider how bankruptcy proceedings can be avoided.

Last summer we dispatched Mike Turner to Cornell University to find out how the Americans were coping with property valuations in a situation where, because of the Savings and Loan fiasco, most markets will have an excess of product for the next 7 to 10 years. As a consequence mortgage money has dried up and the only product being sold is "distressed property" which is selling for \$0.25 on the dollar. He came away convinced that it was an entirely different situation in most markets in Atlantic Canada: their depressed

state is temporary; weak demand resulting from the recession. It is true however that there are structural problems of long term oversupply which will bring about substantial reductions in property value extending well beyond the recession **in some markets**. In these cases the overbuilding was induced by government subsidies through ACOA: the Sydney, Nova Scotia hotel market is a prime example; industrial properties outside the major metropolitan centres are another.

### Residential Property



Our involvement with the residential market is confined to the Halifax-Dartmouth Metropolitan Area and the same situation with respect to property price movements does not necessarily pertain to other urban centres in the Atlantic Provinces. We measured price movements over the last five years in neighbourhoods representing three different price categories. Our Sackville sample was very homogenous since it was limited to bungalows, including split entry homes. They currently sell for about \$90,000. The Colby Village sample was restricted to homes that currently sell for about \$133,000. The Halifax Peninsula South homes sell today for an average price of \$240,000: they were the only properties that show any significant price movement.

### BROKERAGE DIVISION

Our Brokerage Division concentrates its sales and leasing efforts in the Halifax-Dartmouth Metropolitan Area focusing exclusively on retail, office and industrial property. We do, however, work with brokers in the rest of the Atlantic Region and can provide them with marketing reach if you have property to sell outside Halifax-Dartmouth.

### Sales - a Buyer's Market Investment Properties



Even though interest rates are their lowest in 10 years there is a general lack of confidence on the part of purchasers. This hesitancy on the part of investors is warranted because of the oversupply of office, retail and industrial space. In order to fill, or retain, office tenants it is necessary to "buy them" (see Consulting) and few purchasers are willing to enter this arena even when the property has little vacancy. Downsizing and mergers are the order of the day. The amalgamation of Coopers and Lybrand with Collins Barrow, and the purchase by the National Bank of a large portion of Central Guaranty, are two such straws in the wind. Vendors too are sitting tight, preferring to let it be known that their

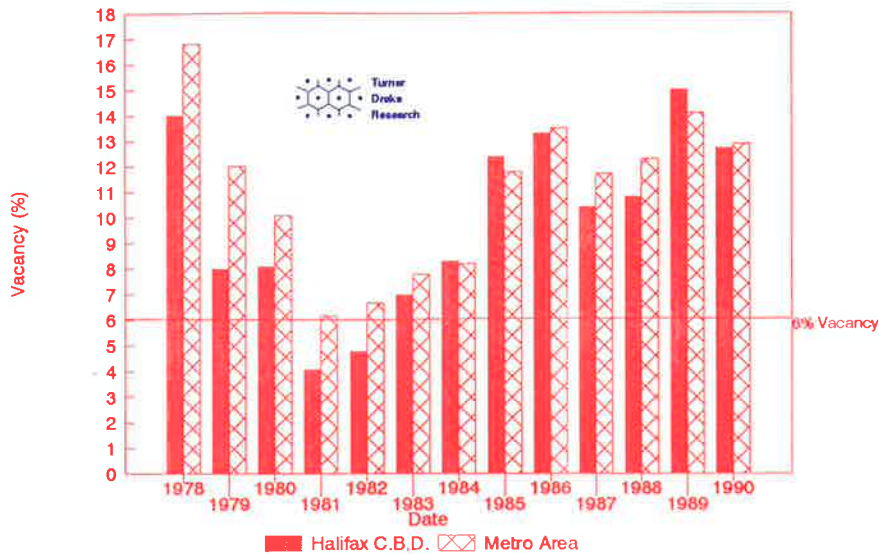
property is for sale, rather than attempting to actively market it.

### Budding Owner Occupiers - Carpe Diem!

The I.C.I. property that is on the market tends to be in the under \$1 million category: most of it is "distressed" property offered as the result of foreclosure proceedings by financial institutions. These properties only find a market, at what two years' ago, would have been "fire sale" prices. We have sold a number of them and, as a result, our Brokerage Division has considerable expertise in their marketing.

In our opinion the next six months will be the optimum time for potential owner occupiers to acquire I.C.I. property in the Halifax-Dartmouth Metropolitan Area. Mortgage rates are the lowest that they have been in 10 years, yet because of the lack of business confidence the property market is very soft; so prices can be as much as 50% to 75% lower than

## HALIFAX/DARTMOUTH METROPOLITAN AREA OFFICE SPACE VACANCY SURVEY



Source: N.S. Dept. of Development

a grinding halt in 1976, just as Halifax C.B.D. was in the middle of a building boom. Office supply continued to increase as buildings were completed and vacancy rates peaked at 14% in 1977. Gradually the excess space was absorbed and by 1979 - 1980 the vacancy rate had fallen to 8%: then the recession struck. By 1981 the vacancy rate had fallen to 4.1%; below the 6% base line vacancy rate that normally triggers an expansion of supply. However, developers seared by their experience during the late '70s, were reluctant to respond quickly. Rents started to rise but the demand for new office space was outpacing supply and during the mid '80s we witnessed large rental increases (40% per year) as a new equilibrium was established. This enticed developers back in to the market and we had a building boom in the mid to late '80s...just in time for the recession (we were a little ahead of the rest of the country). The office vacancy rate for the Halifax C.B.D. is now  $\geq$  13%. Those who forget their history are destined to repeat it. We predict with some confidence therefore, that the same drama will be replayed during the next ten years. The moral of this tale? Carpe diem (seize the day!). If you have aspirations of property ownership, start looking now ... **do it! Our operators are standing by, just call 429-1811, that number again ... 429-1811.**

before the recession. The Reichmanns made their fortune buying when the rest of the world was selling and, whilst Halifax Peninsula is not Manhattan Island, there are some excellent opportunities available. This is particularly so for purchasers who intend to occupy property, which is vacant when it is offered for sale. Whilst the very attractive leasing deals that are now available persuade many prospective buyers to defer the purchasing decision until the economy improves, this will prove to be expensive procrastination in the long run. Rents tend to increase in a discrete, rather than a continuous fashion, as the supply of available space is absorbed. We went through a similar cycle to that occurring now, during the period from the mid '70s to the mid '80s. Federal government expansion came to

### Leasing - Still Very Soft

**MAINLY  
FOR  
TENANTS**

**Office Space** - the market has softened since the summer. Tenants have never had it so good particularly in the Halifax C.B.D. The Province of Nova Scotia has followed through with its promise to go to tender on its space requirements and landlords are fighting to win it as a tenant with turnkey rents of \$16 to \$20/ft.<sup>2</sup> **gross** on Class A and B space. These rents typically include 3 months' to 2 years' free rent on a 5 year lease.

We believe that rents have now bottomed out. Tenants should negotiate 5 year leases with a 5 year option at the same rent if they wish to take advantage of the development cycle.

**Industrial Space** - the market is soft and activity is largely confined to downsizing. Generally unchanged from the last quarter.

**Retail Space** - activity has increased slightly from the last quarter for strip malls, and rental levels show strength. However there is insufficient activity to determine if a real improvement is in hand. Enclosed malls are a different story however: the well publicised failure of several national chains does not bear repeating here and rumours abound of a mass exodus from some malls. We suspect that retailing may be undergoing a fundamental change and that the nineties consumer is focusing on "cost" rather than the "shopping experience".

Virtually all of the leasing in the metro area is on an "open listing" or "co-broker" basis so we are able to offer tenants "one stop" shopping. Information on available retail, office and industrial space flows into our computer database on a daily basis. Since our leasing staff are salaried professionals they can concentrate on finding the leasing package that best fits your needs. We will be glad to send you an explanatory brochure on our services ...