TURNER DRAKE & PARTNERS

Newsletter

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UPDATE

The snows, like the recession, have outstayed their welcome and continue to linger, like piles of dirty linen, in the wooded folds of the region; but the robins are back from their annual cross border shopping trip and the forests resound with the mad chorus of returning birdlife anxious to catch up on the latest gossip. Whilst it may not yet be merry times in the Maritimes, Spring is sprung again! The Atlantic has turned from battleship grey to royal blue, herons again stalk the saltmarsh and those freest of free spirits, the bald eagles, soar and wheel high above. This is a great time to live in God's country...and it will soon be fiddlehead time again too. Wow! So let's get moving Atlantic Canada (the rest of you too...) we have a terrific year ahead. Now is the hour to extract some tangible benefit from the economic climate, by adding value to your property assets. Read on fair reader, read on...

"Canada at the Crossroads. The Reality of a New Competitive Environment"
It sounds like the title of a government study, doesn't it? Well it is. Like us, you may think it bizarre that a Federal Government incapable of controlling its own spending, should use the results of Harvard Professor Michael Porter's study (ISBN 0-662-19218-4) to berate Canadian industry on its lack of competitiveness. However you shouldn't throw this baby out with the bathwater: when it comes to competitiveness and value chain models, the Prof. knows his onions.

PROPERTY ASSET MANAGEMENT SYSTEM

We have some practical suggestions that you can use, right now, to add value to the property asset portion of the value chain. (If you want details of the whole meal deal, give us a call and we'll send you our free explanatory brochure on PAMS™; if you are interested in it à la carte, read on...).

Everytime you reduce your operating expenses, or increase the rental income, and add $1 to your bottom line, you increase the value of your property by about $10. So if you own a $2.0 million property in Saint John, N.B., with a 75% mortgage, the value of your equity will increase from $500,000 to $592,000 for each 10% reduction we get in your real estate assessment.

There are all sorts of ways we can help you decrease your operating expenses, and if you own a rental property, increase your income. Taking advantage of the recession to obtain a reduction in your real estate assessment is but one way that you can benefit from the current dismal economic situation. Tax savings can be dramatic and sometimes amount to 50% of the tax burden. Our Property Tax Division saved an hotel owner in Saint John, N.B., $31,923 per year, an apartment building owner in Dartmouth, N.S., $30,170 per year, an office building owner in St. John's, NFLD., $7,408 per year (their tax rate is low!) and is negotiating $20,000 per year in savings on a shopping centre in P.E.I.

Our Consulting Division is adept at finding value adding opportunities too. We have just negotiated a 50% increase in the allowable rents on an apartment building in Nova Scotia, with the Rent Review Commission, for a lawyer client. We are experts at interpreting leases too, and not infrequently discover that property owners are failing to recover all of their operating expenses. This often occurs with mixed use complexes such as the hotel-retail-office complex in Moncton, N.B., where we discovered that the leases had been "customized" by tenant and that the owner was failing to charge back those operating expenses that fell outside the norm.

In order to maximise value it may be necessary to restructure leases when they fall due and renegotiate lease terms with the tenants. We have acted both for landlords and tenants in lease negotiations and understand the value implications in lease covenants. These value implications are usually overlooked when the lease is viewed solely from a legal perspective. For example, it is often necessary to give concessions to attract tenants in these tough economic times.

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If these are given directly by way of rental reduction, there is an almost ten fold impact on capital value.

You should analyse all of your operating expenses and compare them to norms for your type of property. It is surprising how much money is thrown away because, for example, the property is overinsured, or cleaning contracts struck in better economic times have never been reviewed. All contracts negotiated before the recession should be reviewed, there is a good chance that most suppliers will offer you a lower price today...but only if you ask.

Interest rates are down and may fall lower if the stock market crash in Japan, and the concomitant liquidity crisis facing the banks there, does not impact too heavily on the bond market in Canada. Three of our consulting staff have just completed the University of British Columbia mortgage course and are in a good position to advise how you can take advantage of the present situation. Unfortunately lenders are becoming very nervous so there can be difficulty in sourcing mortgage funds. We are currently compiling a list of mortgage sources and their lending criteria.

Property prices have fallen in most markets in Atlantic Canada so this is a good time to consider purchasing property. We monitor values in most markets and have developed empirical forecasting techniques. Generally speaking, now is not the time to sell, however there are opportunities to tap into investment funds through, for example, lease purchase.

Missing President Found!

Company president, Mike Turner, was found on Monday morning, wandering around our Records Room. Mike appears to have suffered little physical deterioration since his disappearance almost two years' ago.

There have been unconfirmed sightings over the last 18 months. His youngest sons, Mark and Nigel, who run a thriving business delivering the Comical Herald and Daily Blues during the early hours (no tips required unless you want your newspaper in readable form) report seeing a thin strip of light under the door of an abandoned basement office in the family home. Various staff members have witnessed a blur, accompanied by severe turbulence and a high whistling sound, streaking through our building (our HVAC people are investigating). Somebody (or thing) has periodically emptied Mike's in-tray, dictated letters and signed cheques. Our office manager has reported a disembodied voice issuing instructions "out of the void". His pay cheque has been cashed (suspicion has fallen on spouse and co-worker Verna).

Mike's explanation for his disappearance is somewhat far fetched. He insists that he was here all the time but that he was also completing an Executive M.B.A. at Saint Mary's University in his spare time. In his spare time? At our firm! Ha, ha, ha, ha...Asked to describe his classmates he waxes lyrical about "22 of the brightest over achievers he has ever met". Yeah right! We all know people like that don't exist outside of Ontario...we get the Globe and Mail here too you know! Asked to describe the course he shudders (theatrically) at the workload and enthuses about the teaching and course material. He even lards his conversation with words like "distinctive competency", "mission statement" and "strategic planning". Give us a break...we weren't born yesterday. If you want to go on a two year bender guy, that's fine, but cut out this Trappist monk sh*t!

Mike's a pretty dull guy. The most credible explanation for his absence is that he was filed away by an over zealous secretary. We've taken steps to reduce the possibility of it happening again but if someone here should absent mindedly stuff him in with your correspondence, please mail him back. He keeps muttering about a convocation on May 11th and we have to humour him..somebody has to sign the cheques. Thanks.

PROPERTY TAX DIVISION

Prince Edward Island - the Provincial assessment department has reduced some building assessments by 20% for 1992. In most cases this is not enough, nor do we follow the logic inherent in the assumption that the recession has not affected land values. We have contacted most owners of major property in P.E.I. with a set of decision rules to enable them determine whether they should appeal. The assessment notices were mailed on April 22nd and there is a 45 day appeal period from the date appearing on the notice, so you still have time to appeal. If we missed you. please give us a call and we'll mail you our decision rules and the appropriate wording for the appeal.

Cambridge Gardens, Dartmouth, N.S.
($198,000 per annum tax savings)

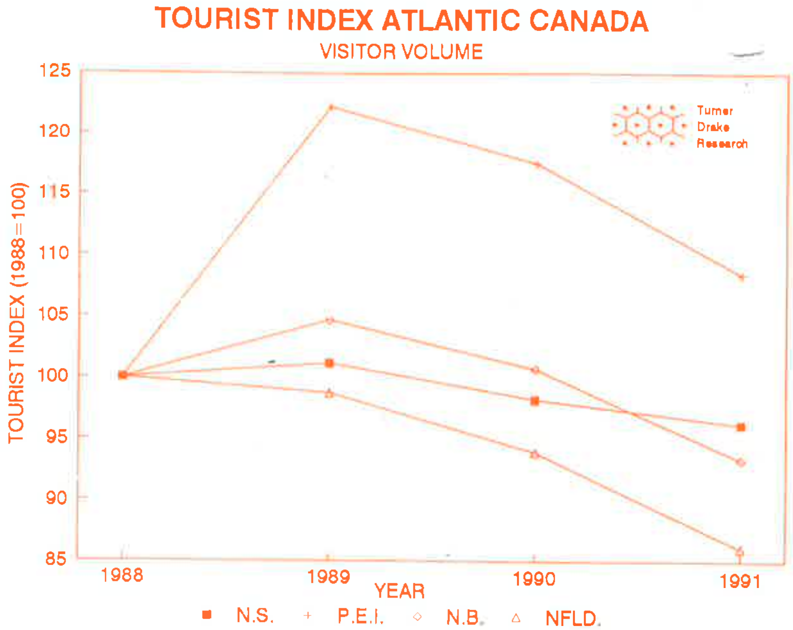
St. John's, Newfoundland - your appeal period has now expired. We are working on appeals in St. John's so, if you have already appealed or wish to prepare for next year, give us a call.

New Brunswick - your appeal period has now expired too. We are conducting numerous appeals throughout the province (the 1992 assessments did not reflect the effect of the recession at all!), so if you have already appealed, or wish to prepare for next year, please call us as soon as possible. In order to minimise costs we are grouping appeals.

Nova Scotia - your appeal period has expired. Next year is the tri-annual reassessment so you should prepare for it now! We are negotiating over 100 appeals throughout the province at present.

CONSULTING DIVISION

Valuation - Hotels

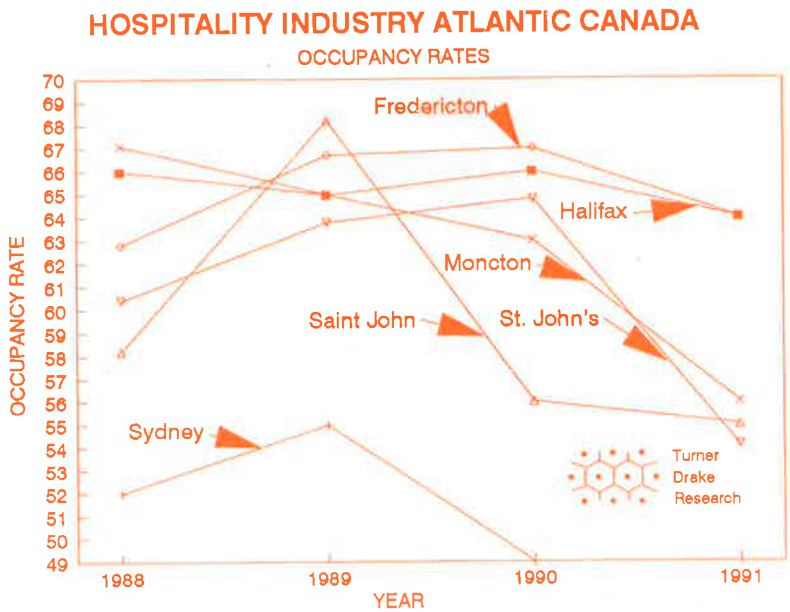


Sources: Provincial Tourist Departments

The hospitality industry in Atlantic Canada has been badly hit, first because of overbuilding encouraged by grants from the Atlantic Canada Opportunities Agency (ACOA), and then by the recession.

Tourist volume, as measured by exit surveys, peaked in 1988 in Newfoundland and in 1989 in the three Maritime Provinces. Measured against the pre-recession 1989 baseline, tourist volume fell by the following percentages: Newfoundland - 1990 <5%>, 1991 <13%>, New Brunswick - 1990 <4%>, 1991 <11%>, Nova Scotia - 1990 <3%>, 1991 <5%>, Prince Edward Island - 1990 <4%>, 1991 <11%>. This drop in tourism, the reduction in business travel due to the recession, and government funded expansion of supply, has combined into a potent cocktail which has devastated hotel values in some centres.

Nova Scotia - Sydney has been particularly hard hit. Government funding encouraged the growth in supply from 537 rooms in 1986 to 851 rooms in 1990, an increase of 58% over this four year period. The brand new (ACOA funded) 152 room Sheraton (née Ramada) Mariner Hotel went to foreclosure recently and was bought in by the mortgagee at the sheriff's sale for $1,000. Keddy's Sydney Hotel suffered a similar fate as part of the bankruptcy of that hospitality group. The Bank of Montreal are now the proud owners of that establishment. They shouldn't bank (sorry!) on getting their money out quickly...hotel values have dropped by 57% in Sydney during the past two years and with occupancy rates hovering around the 49% level, hotels are hardly a hospitable investment. There are still buyers out there however for good quality hotels: Enterprise Cape Breton has recently been successful in disposing of the Holiday Inn to local interests. **Halifax** has fared somewhat better; however the market is saturated there too. Average occupancy rates fell to 64% in 1991 and price cutting is the order of the day. The small (28 room) Haliburton House Inn went to foreclosure recently and is now being offered for sale by the mortgagee. The (305 room) Lord Nelson Hotel, the grande dame of the Halifax hospitality industry, now somewhat in need of fresh makeup, but nicely ensconced on a beautiful site opposite the city's famous 6 acre Victorian Public Gardens, is currently on the market. There are a number of other hotels that are being quietly offered for sale. There is no hard sales data available to accurately measure the effect of the recession on hotel values. However 1989 baseline values for major hotels in the downtown core indicated that luxury, first class and mid-rate hotels were loosing ground to all suite units. We anticipate that the recession will have exacerbated this process and that the values of some hotels will have fallen by 25% since 1989.

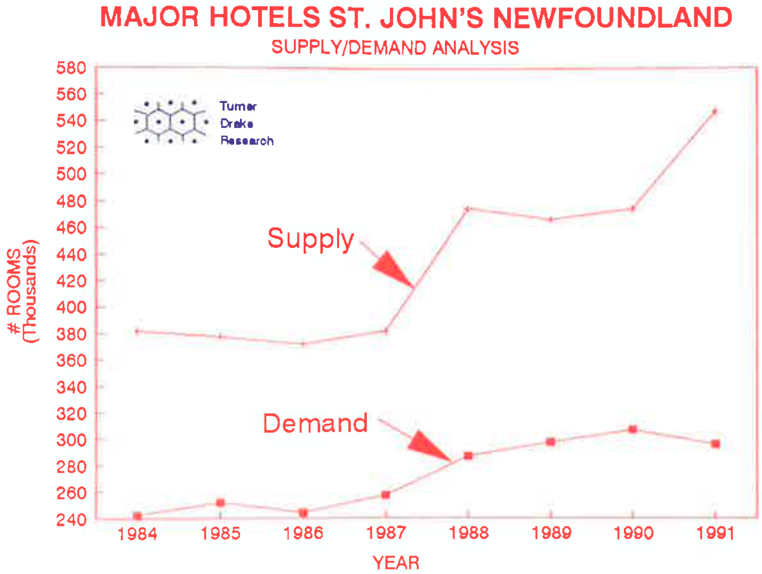


Sources: Provincial Tourist Departments

New Brunswick - We are currently engaged in offering valuation advice on hotels in Saint John, Moncton, Fredericton and Newcastle for a variety of owners. **Saint John** area hotels had a dismal 55% average occupancy rate in 1991 and we do not anticipate any improvement this year. During the first quarter of 1992 all but one major hotel, were achieving lower room rates than in the corresponding month a year earlier. In March 1992, the major hotels in the city achieved a room rate that averaged $3.00/night lower than in the same month of the previous year. Most hotels in Saint John have fallen in value: the most extreme case that we have seen, recorded a 53% drop in value when measured against the pre-recession 1989 baseline figure. Admittedly there were circumstances specific to that hotel, so a drop in value of this magnitude is exceptional. However many hotels in New Brunswick are now overassessed and hotel operators should take advantage of the situation to shed some of their tax burden. We were able to get a 30% tax saving for one Saint John hotelier last year and anticipate further, additional, tax savings this year. **Moncton** area hotels face a similar scenario. Their average occupancy rate collapsed from a less than edifying 63% in 1990, to a crippling 56% in 1991. We anticipate that the value of some hotels will have fallen by 25% to 60% as a result. We strongly advise all Moncton hoteliers to review their real estate assessments to determine if they can alleviate their tax burden. **Fredericton** area hotels achieved a 64% occupancy level in 1991, down only slightly from their pre-recession 1989 baseline 66.7% figure. However room rates are being discounted. We have no hard data yet on which to establish the fall in market value over the past two years, but are in the process of compiling it now.

Major Hotels Charlottetown, P.E.I.						
Month	Occupancy Rate (%)			Average Room Rate ($)		
	1990	1991	1992	1990	1991	1992
Nov.	33%	27%		$52	$52	
Dec.	21%	19%		$49	$50	
Jan.		20%	19%		$49	$52
Feb.		51%	24%		$63	$52
Mar.		28%	28%		$53	$53

Prince Edward Island - The recession and ACOA have been busy on Prince Edward Island with a concomitant effect on the hospitality industry. **Summerside** saw the opening of the new, ACOA funded, 50 room Loyalist Inn in 1991. As a result occupancy rates plummeted in the other hotels by an average of 60% One, the Best Western Linkletter, went bankrupt and is currently still in the hands of the receiver having failed to attract an acceptable offer. **Charlottetown** hotels too are feeling the effects of the recession, though not as badly as Summerside...but then they don't have ACOA's helping hand to assist them! The table (see above) details the occupancy and room rates for the Charlottetown area in recent months. Although average room rates appear to have bottomed out, occupancy rates are below their levels of a year earlier. **Elsewhere** on the island, expansion of motel-resort facilities has already occurred or is in process. The 90 room Rodd Mill River Resort expanded in 1990 with the opening of an aquatic centre (second indoor pool, water slide, racquet courts) overlooking the 18 hole golf course. The 50 chalet Rodd Brudenell River Resort is presently undergoing an ACOA funded expansion and is adding 50 hotel rooms and an indoor swimming pool, health club, dining room and lounge, for its 1st July opening.



Source: Newfoundland and Labrador Dept. of Development.

Newfoundland - There may be a "world of difference in Newfoundland and Labrador"...but when it comes to the hospitality industry, you're down there with the rest of us guys (and gals). The reasons are the same too: overbuilding encouraged by government grants and the recession. The graph for St. John's says it all. The average occupancy rate for major hotels in the city bounced along at 64% to 67% between 1984 and 1987. Then in 1988, 286 rooms were added to the supply with the opening of the Hotel Newfoundland. By 1990 demand had absorbed much of this additional space, and occupancy rates had recovered to 65%, when the new 276 room Radisson Plaza Hotel, funded by Federal/Provincial grants, came on stream. As a result average occupancy rates crashed to a dismal 54% in 1991. To make matters worse, the 164 room Journey's End Hotel opened in the fall of 1991. Hope you appealed your assessments this year guys! If you have, give us a call: we are working on other appeals in St. John's right now. If you haven't, make a note in your diary to do so this December: hotel values have fallen substantially in St. John's over the past 18 months.

BROKERAGE DIVISION

Our Brokerage Division concentrates its efforts on the Halifax-Dartmouth Metropolitan Area. Our leasing personnel deal exclusively with retail, office and industrial space. Our selling activities are tightly focused on I.C.I. (industrial, commercial, investment) property, and raw land suitable for development. We also work with brokers in the rest of the Atlantic Region and can provide them with additional marketing reach if you have a property to sell outside the Halifax-Dartmouth Metropolitan area.

Sales - Still a Buyer's Market

Photograph courtesy of SunDancer Photo Communications

Investors continue to lack confidence and the Olympia and York saga adds fuel to the flames. The metro area has a surplus of office and industrial space: government and business continue to downsize. This has resulted in generous tenant inducements, and the situation has been exacerbated by the fact that the Provincial government is following through on its policy of tendering its space requirements. As a result there is fierce competition for tenants, either on "rollovers" or those that are relocating (see Leasing).

Vendors generally, are either withholding their properties from the market, or continue to ask pre-recession prices rather than bite on the bullet and accept writedowns. Even those properties which have been foreclosed, are either withheld by the mortgagee "while they lease it up" (usually a euphemism for delaying the evil day when they have to recognize the loss on their books), or are exposed for sale at too high a price whilst the mortgagee's representative works through the politics of getting the investment committee to accept the fact that the property is overmortgaged. Both of these situations present opportunities for knowledgable purchasers, particularly if they have a use for the vacant space. Based on our own experience, and an analysis of those sales that have occurred within the last six months, the most significant variables impacting adversely on price are "overlisting" and "vacancy". Overlisting (listing a property at too high a price) is the surest way to kill interest in it and erode its value. The listing becomes stale, and in order to resurrect interest the vendor usually has to relist it well below market value to achieve a sale. This is a common tactical error at present. Vacant space, particularly in office or industrial buildings, is a major opportunity for purchasers who have a use for it. It is extremely expensive to buy tenants, even when they are available, so properties with vacant space sell at a substantial discount.

The following is a thumbnail sketch of each sub-market. The discounts quoted are measured against pre-recession 1989 baseline values. **Office buildings** have fallen in value by an aggregate amount equal to the cost of buying tenants to fill any vacant space, the carrying cost during the lease up period and the additional reward demanded by the purchaser to compensate for the additional risk. The fall in value (discount) is correlated with the quantum of the vacant space and can range from 32% for a modern, completely vacant building, to 0% for a building which is fully leased for the next 5 years. **Industrial buildings**, suitable for single occupiers, are selling at discounts of 18% to 26%, if they are fully vacant. Buildings which are overlisted, where the vendor follows a policy of gradually reducing the price, have sold at a discount of 50%, when fully vacant. **Neighbourhood Shopping Centres** with second floor office space and a high vacancy (>60%) have fallen in value by 30%. **Apartment buildings** with low vacancy (1%), situated on Halifax Peninsula, have held their pre-recession value. Buildings in the suburbs have fallen in value as tenants vacate them to become homowners by taking advantage of the low downpayment provisions of the Federal budget and the low mortgage rates. Apartment buildings in Spryfield have not changed in value: they are still unsaleable.

Leasing - Great Deals for Tenants

Office Space - the market continues to amaze us; it has softened still further since our last Newsletter (we confidently predicted then that it had bottomed out!). During 1991 there was a negative absorption of 138,997 ft.² of office space in the Halifax C.B.D. and the office vacancy rate stood at 16.2% at March 1992, up from 12.7% a year earlier. This situation will not improve in the short term because the Federal government is consolidating some of its departments into the newly renovated Post Office Building on Bedford Row (±95,000 ft.²) and the Ralston Building on Hollis Street (±135,000 ft.²). It will probably take about five years to absorb the surplus space currently on the market. Meanwhile, competition between landlords with Class A space is suicidal: buildings which are owned by financial institutions, such as pension funds, are offering tenant inducements such as rent free periods (1 year on a five year lease) and leaseholds (full turnkey packages). The resultant net effective rents range from $0.64/ft.² to $4.59/ft.² for triple A tenants such as the Provincial Government.

Outside the downtown core, space is available for $3.00/ft.² net absolute, above neighbourhood shopping centres, and $5.00/ft.² net absolute, for small areas in modern air conditioned office buildings.

Retail Space - activity is unchanged from the last quarter for strip malls and rental levels continue to show strength. The City of Halifax cunningly lured the Price Club (115,000 ft.²) away from Dartmouth, into their Bayers Lake Industrial Park. Price Club expects to achieve an annual turnover of $100 million... which should be sufficient to drive the equivalent of a Community Shopping Centre out of business. (This may be an underestimate: some Price Club stores are rumoured to achieve $1,500/ft.²). No doubt there will be much gnashing of teeth by shopping centre owners and retailers as they write their tax cheques to the City this year, knowing that it is being used to subsidize their competition. (Our Property Tax Division expects to get substantial reductions in shopping centre assessments once the impact of Price Club makes itself felt). Living and working here is rather like attending a perpetual Mad Hatter's tea party...we can sympathize with Alice...

Industrial Space - there is a surplus of space and the metro area vacancy was 13.9% as at March 1992. Having created two industrial parks which were not needed, at enormous public expense, the City of Halifax is desperately attempting to fill them and thus make the situation worse.

We have no other foolishness to report...but don't despair there'll be something new before our next Newsletter.