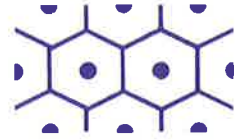


Newsletter



Vol. 2 No. 45

Spring 1993

UPDATE



It's Spring! Sure it is; March 21st was the vernal equinox.

The recession is over! Sure it is, Statistics Canada said so.

O.K.! O.K.! But it **is** Spring; so let your mind slip ahead a couple of months and dream for a moment . . . fiddleheads, freshly picked from the banks of a New Brunswick brook, sweet fleshed lobster recently plucked from the cold Atlantic; and to wash it down a medium dry white wine pressed from grapes nurtured on a balmy Northumberland shore: blossom bursting forth, gently perfuming the air. Aaah! Merry times in the Maritimes again.

Now, back to the present. The recession, like the sooty snow is lingering and we suspect that the private sector is going to be left with most of the shovelling. The politicians have done a grand job of identifying the public debt problem, but so far have tiptoed around the solution with all the enthusiasm of a Vestal virgin in a brothel. As the Globe and Mail succinctly puts it, the choices are delightfully simple: cut the cost of the civil service by 30%, or raise taxes by a commensurate amount. Now, which do **you** think they are going to do? Right! So do we! So eyes down, we have another bagful of goodies for you.

PROVIDING SOLUTIONS TO REAL ESTATE PROBLEMS



TURNER DRAKE & PARTNERS LTD.
Real Estate Counsellors,
Brokers and Valuers

Like most firms we have been challenged by the recession and have taken the opportunity to review our operations to see how we could "tweak them" to serve you better. Faint heart never won fair maiden so rather than batten down the hatches, we have vigorously invested in new computer equipment, upgraded our valuation products, further enhanced our operating procedures and expanded our premises.

Since commencing in business in 1976, we have worked on a carefully crafted plan (conceived in Mike's bathtub) to broaden and deepen our expertise in real estate. We looked at and rejected, the traditional North American model which is based on the concept of firms specializing in a narrow part of the real estate spectrum such as "appraisal", "sales", "leasing", "assessment". Solutions to most real estate problems do not fall neatly into these categories: they transcend them. Even more illogical; they require that a client seeking real estate advice identify the solution before identifying the problem! (Rather like by-passing your doctor and going right to the specialist). We found that what many clients perceive to be a problem requiring an "appraisal"; may require a different solution altogether such as an

"assessment audit" or a "feasibility study". These in turn require expertise in sales or leasing, as well as property tax or counselling.

We also rejected the alternative, which was to bring together groups of appraisers, leasing agents, sales persons and assessors, primarily paid on a commission basis, under one roof, sharing a common overhead. Instead we chose the European model, salaried professionals who are experts in their respective fields, working together as a team, to solve clients' real estate problems. In order to ensure that we achieve and maintain a competitive edge, we first set out to establish a distinctive competency in each field, and only when we have achieved that leadership do we move into ancillary fields. We started as an appraisal firm. Once we were pre-eminent in that field we moved into real estate counselling, property tax assessment, I.C.I. sales, then retail, industrial and office leasing. We use competitive benchmarking: we study the pre-eminent firm in the field, install a system which improves on their modus operandi and

then "tweak it" using a program of continuous quality improvement. The buzz slogan is "Leadership through Quality": we are committed to it. Coupled with our team approach, it gives you the opportunity to tap into a rich vein of expertise that is not available elsewhere, certainly not in Atlantic Canada. So why are we not rich and retired? We are having too much fun . . . so take advantage while you can. If you own, or have clients that own real estate, give us a call at 1-800-567-3033: we'll be glad to send you our complimentary brochure "Providing Solutions to Real Estate Problems". Don't procrastinate; do it now!

VALUATION DIVISION

Real Estate Appraisal: Part Sham, Remainder Shambles?

Uniform Standards of Professional Appraisal Practice

In the wake of the Savings and Loans fiasco in the United States, their Federal Government shuddering under the impact of back stopping a potential \$200 billion (US) loss under its deposit insurance Act, initiated action with the various appraisal organizations. The result was the Uniform Standards of Professional Appraisal Practice (USPAP), governing both the methodology and reporting standards for appraisal assignments. USPAP was endorsed by every major appraisal organization in the United States and Canada. Unfortunately, although it was implemented in the U.S. in January 1989, the major appraisal organization here, the

Appraisal Institute of Canada still has not done so. In June 1991, our own Canadian Deposit Insurance Corporation brought in regulations, the "Standards of Sound Business and Financial Practices, Real Estate Appraisals" for institutions they insure i.e. most of the bank and trust companies. Last Winter the Appraisal Institute of Canada advised its members (AACI) that its own standards no longer met those required by the CDIC. For example, CDIC insist that the appraiser read all of the leases not just a "representative sample", and they will not tolerate Letters of Opinion, hypothetical appraisal reports or the use of unverified information. The Appraisal Institute of Canada hopes to implement the USPAP standard in January 1994.

We have had a Code of Practice for over ten years and have always prided ourselves on our thoroughness and attention to detail but, ever eager to improve, we dispatched our intrepid Vice President Rick Escott, to the wilds of Boston last year to see what USPAP was all about. The Appraisal Institute (of America) is the leading proponent of professional standards for real estate appraisers in North America and their week long course on USPAP so impressed Rick that we decided to take the bull by the horns and implement it on the 1st January this year. Fortunately we found that our modus operandi, as embodied in our Code of Practice for I.C.I. Valuations, already met USPAP standards, so we went the extra mile and upgraded our valuation reports.

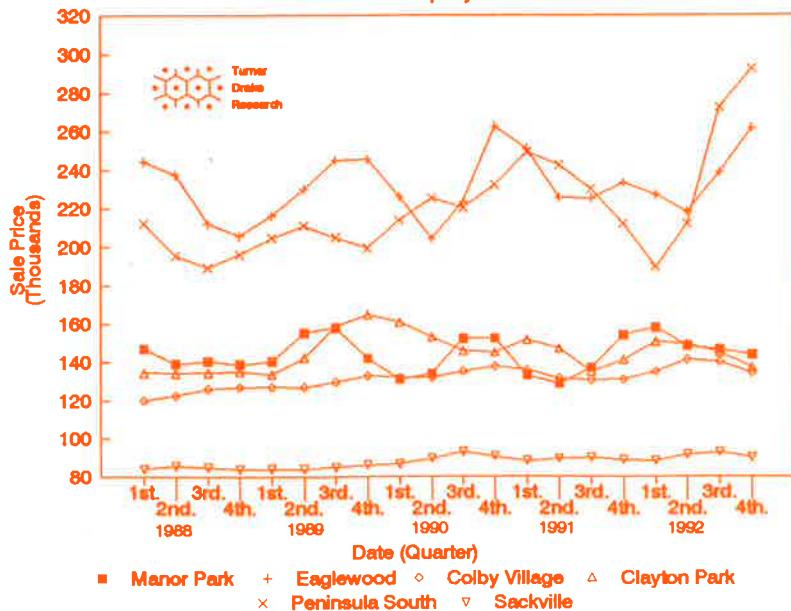
We believe that USPAP will become the de jure, as well as the de facto standard in Canada, as it is in the United States. This is important, not only for current appraisals for financing which fall under CDIC's jurisdiction, but also for any appraisal that will have to stand the test at some future date: for example, appraisals undertaken for expropriation, capital gains tax, estate settlement, planning appeals, etc. that may be produced as evidence of value at some future court hearing or other date. Accordingly if you are commissioning an appraisal today, it is somewhat risky to do so unless it meets the USPAP standard, since it is likely to be "thrown out of court" at some future date. USPAP is not cheap to implement. We had a head start because it was only necessary to revise our reporting standards, not our methodology. Even so we estimate that it cost us about \$24,000 to upgrade our range of valuation products. However, there is no doubt that it will provide you with a better product, and one that will stand the test of time as USPAP becomes the accepted standard in Canada too.

Residential Valuation

During 1992 we brought an enhanced version of Compuval™, our computerized valuation system, on stream. We have spent close to \$100,000 on Compuval™ and are rather proud of it. Compuval™ is now able to search through our database of 50,000 sales (> 1.3 million pieces of information) in less than 2 seconds! It took 20 minutes to carry out a complicated search with our old system.

Compuval™ is a dedicated valuation system and it gives us a distinctive competency, not just in residential valuation but for any study of the property market. Our Counselling Division, for example, undertakes supply and demand surveys for owners of apartment buildings who want to sell off their individual units as condominiums. Compuval™ literally allows us to dissect the market 28! different ways . . . in seconds. Although much of our sales data is derived from MLS information we code the data ourselves and input it into Compuval™ rather than use the real estate boards' computers. This allows us to check the validity and reliability of the data before it is provided to our valuation

HALIFAX/DARTMOUTH METROPOLITAN AREA Residential Property Prices



personnel: by matching the physical data with the photographs, we are able to screen out many of the errors on the listing cut. (Since sales information is not public knowledge in the Maritime Provinces, the Multiple Listing Services are the main source of residential sales information).

Compuval™ also tracks property price movements in six key neighbourhoods in the Halifax-Dartmouth metropolitan area. Each neighbourhood has been selected because it represents a particular price segment of the real estate market. It gives us a unique window on the residential market and allows us to advise clients, such as purchasers, vendors, banks and trust companies, about price movements across the entire spectrum. We also track the average price of a single family home in the metro area. Since Compuval™ is so fast, we can assess which type of home (segmented by style, price, quality, age, location, etc.) is selling and in what volume.

CONSULTING DIVISION



Our Consulting Division provides sound, independent advice on investment and portfolio analysis, strategic planning, acquisitions, dispositions and reuse, to companies owning or occupying property in Atlantic Canada who wish to optimize their property assets.

The Division is headed by company president Mike Turner. Mike combines a strong practical background (thirty years' experience in the field as a consultant, broker and valuer) with academic skills. Mike completed an executive MBA last year and has an M.Sc. in real estate. Until 1988 he also taught real estate and real estate finance to students in the B.Comm. and M.B.A. programs at Saint Mary's University in Halifax. He is a Fellow of the Royal Institution of Chartered Surveyors and is a qualified appraiser of the Appraisal Institute (of America). In 1989 he was invited by his peers to join the ranks of the prestigious American Society of Real Estate Counselors, thus becoming part of a select

group of less than fifty Canadians to hold that honour.

Our Consulting Division is increasingly retained to provide counselling advice to owners of apartment buildings who wish to sell off the individual units as condominiums. The decision by the Federal Government to increase its ceiling on high ratio mortgages to 95% of the property value, coupled with low interest rates, has resulted in an exodus of tenants which has lent impetus to condominium conversion. The process of converting an apartment building from a rental project to condominium units for owner occupation is fraught with danger. Once the decision has been made and the process has begun, there is no turning back. The building owner therefore has to be sure that he/she can sell all of the units within the particular time frame, otherwise the conversion can be a financial disaster. It is therefore essential to have a good understanding of the target market and to be able to measure whether there is sufficient demand to absorb the condominium units within the desired selling period.

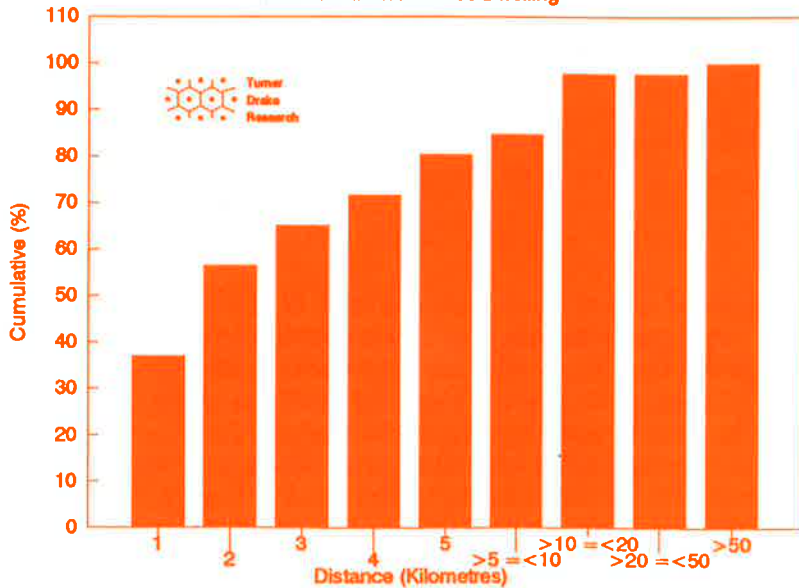
We have conducted a comprehensive survey of condominium apartment owners: their likes/dislikes, life styles, incomes, etc., to allow us to construct demographic and psychographic profiles of this target market.

One of the most significant findings of our survey was the dimensions of the catchment area. Condominium purchasers usually do not move very far from their previous dwelling: over half (56.5%) move two kilometres or less. It is therefore important to construct a profile of the present renters in the building since they usually comprise a major part of the target purchaser market. Building owners usually have a fairly good record of the demographic characteristics of each tenant and this data can be used to match them with the profile of the target market.

A few years' ago a condominium apartment building, of unique design, was erected on a site in Atlantic Canada which enjoyed superb views. It was heavily advertised but sold poorly. The owners were mystified and approached us for counselling advice. They had developed an identical building in Toronto, also on a lot with a "waterfront view" and the

CONDOMINIUM PURCHASERS

Distance from Previous Dwelling



units had sold like hot cakes. They could not understand why their property here was not enjoying similar success. The project had the same facilities and was firmly targeted at the YUPPIE market.

It is a common mistake to assume that property developments travel well. It is our experience that a project which is successful in one community, may be a total flop when it is replicated elsewhere, even within the same geographic region. Different communities embrace different values sometimes because of ethnic considerations, but usually because their demographic and psychographic (lifestyle) characteristics are disparate. For example, condominium projects can

appeal to both ends of the age spectrum: but situate the development on a hill and older purchasers will discount it.

There were a number of reasons why the project did not sell, but of prime consideration was the fact that it was located in an area which did not appeal to YUPPIE purchasers and whilst the view from the units was certainly a selling feature, it did not command the premium of the Toronto location. Atlantic Canadians after all, get a view every morning on the way to work . . . and YUPPIES are a little thinner on the ground here.

Locational Feature	% of Responses
Downtown	69%
Shops	56%
Work	43%
Scenic View	42%
Theatres/Restaurants	42%
Parks/Community Facilities	32%
Public Transit	32%
Similar Life Styles	27%
Hospitals	25%
Friends/Relative	14%
Schools	10%

PROPERTY TAX DIVISION



Hostess Frito-Lay, New Minas, N.S.
(\$85,000 in tax savings)

We are pleased to announce that Tom Mills has accepted the position of Vice President, Property Tax. Tom is a poacher turned game keeper. He joined us late in 1986 after 12 years with the Province of Nova Scotia's Assessment Department and assumed management of our Property Tax Division in 1990. Since then he and his staff have routinely undertaken appeals in all four Atlantic Provinces on properties with assessments ranging from \$100,000 to \$130 million. Tom's new position recognises the increasing importance we place on managing our clients' tax burden; which can represent 48% of their property's total operating costs.

Nova Scotia - we are conducting hundreds of appeals in the province this year. If you have appealed, but have not yet contacted us please do so (1-800-567-3033). The Provincial Assessment Department is obliged to release their calculations to you as owner, or ourselves as your agent. There has been a delay in doing so this year and invariably many clients are suspicious that "something is going on", that the assessors are vetting the information before releasing it, or that unspeakable acts are being conducted during the witching hours. We met with Bob Warren, the Provincial Director of Assessment, on the 12th March and he assures us that there is nothing Machiavellian in the delay; his staff is simply overwhelmed with appeals. He has given us his personal assurance that the records will not be tampered with, or vetted, and that they will be released between the 26th March and the 9th April.

New Brunswick - your appeal period expires on the 30th April. Please call Tom if you are uncertain whether to appeal.

Prince Edward Island - you should receive your assessment notices around the 22nd April: you have 45 days in which to appeal. We have formulated a set of decision rules you can use to determine whether you should appeal. If you would like a copy, please give us a call.

Newfoundland (Corner Brook) - your assessment notices should be mailed on the 15th June (for the 1994 assessment year) and there is a 21 day period from the date shown on the assessment notice in which to appeal. The base date for valuation purposes is the 1st October 1987.

Automobile Dealerships



Your assessment should **not** include the value of your automobile franchise since it is part of your business, and only your real estate is assessable. This is not a contentious issue, most assessors will readily concede the point. Most too will argue that they have ignored the value of the franchise since they value dealerships using a method known as the "Cost Approach" i.e. they value the site and aggregate it with the depreciated cost of the buildings and site improvements, to arrive at the market value. In point of fact such an approach implicitly **includes** the value of the franchise because your showroom, service bays and parts departments are constructed to meet the

requirements of your franchise. If you did not have a G.M. dealership for example, you would not need your present facilities; they would be super-adequate. This super adequacy is called "external obsolescence" and should be deducted from the reproduction cost. Your real estate assessment should represent the market value of your property, as of the base date specific to your province, **assuming that an automotive franchise was not available**. So far as we can determine the actual mechanics of valuing a property on the assumption that it has been "deflagged" have not yet been tested in court. It has major ramifications for everybody in the automotive trade so if there are any automobile dealers' associations out there who would like to put it to the test, we'd like to hear from you.

BROKERAGE DIVISION

Our Brokerage Division has, as its primary focus, properties in the Halifax Dartmouth Metropolitan Area, although since our client base is continent wide, our marketing reach extends across the country. We also cheerfully work with brokers throughout Atlantic Canada.

Leasing

We lease office, industrial and retail space. In our continuing quest to be the best, we concentrate our marketing efforts on meeting tenants' requirements. In order to do that we have compiled a database of virtually all of the vacant space in the metro area. With very few (if any) exceptions metro area landlords co-operate with leasing brokers such as ourselves, and information on their space flows into our computer on a daily basis. Unless you are a masochist (and we have nothing against masochists; if self immolation is your thing, that's your affair!) there is no point in flogging around from landlord to landlord, or broker to broker. As we so elegantly proved (Newsletter Vol. 2, No. 21), you don't even achieve a lower rent by dealing direct. We analyze your space requirements, search the market for accommodation that meets your criteria and then present you with a menu of alternative spaces all neatly detailed in a Master Leasing Prospectus. Once you have culled that list we go to the market and secure proposals from the relevant landlords. We then assist you interpret the competing proposals so that you end up with a leasing package that best meets your needs.

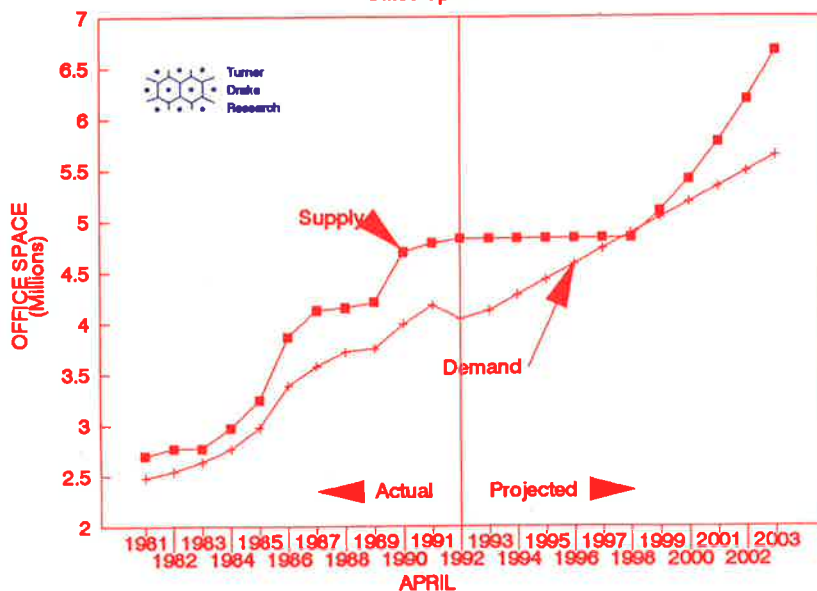
Businesses now have a window of opportunity to reduce their rental costs and/or upgrade their premises. Office rents are at 1978 levels, but that situation will change quite dramatically over the next few years. So, if your lease expires within the next 24 months, you should start looking **now**. If you are a large space user ($\geq 8,000$ ft.²) you should lock yourself into a ten, rather than a five year term, because . . .

The graph on the following page shows the supply and demand for Class A and B office space in the Halifax C.B.D. Data for the total office inventory is not available: the Nova Scotia Department of Industry, Trade & Technology does not disaggregate the statistics. No matter! You will only be interested in good quality air-conditioned space if your staff is to achieve the high productivity necessary to survive the niggardy 90's.

Vacancy for this type of space stood at a record 16.2% in April '92, the latest date for which information was available. We project that demand will recover but slowly from the recession; half of the annual average of the previous ten years for the year ending April '93, before stabilizing during the post 1993 period at this ten year annual average absorption rate.

HALIFAX CENTRAL BUSINESS DISTRICT

Office Space



We assume that there will be no immediate change in supply (i.e. no new building or demolition will occur during the years 1993 through 1998) resulting in an effective zero vacancy rate by April 1998. During this period inducements such as rent free periods, turnkey packages, etc. will disappear and rents will start to rise. There will be major increases in rents during 1997 and 1998. Those who forget their history are doomed to repeat it: so the additions to supply experienced during the years 1984 to 1987 will recur post 1998, albeit in a less frenzied fashion. The office vacancy rate will again rise, rents will soften and by 2001 to 2003, we will again be in the recessionary portion of the business cycle: it will be the optimum time to renew your lease again. Ergo a five year lease is to be avoided, a ten year lease is preferable. Call

Russ at 429-1811 to take advantage of this situation.

Sales

We focus exclusively on investment, commercial and industrial (I.C.I.) property; and land suitable for redevelopment. This is also the primary focus of our Valuation and Property Tax Divisions; in fact they provide advice on over \$300 million of real estate each year. Our consultancy work too ensures that we are in constant touch with most major property owners in the region and have their confidence.

Our sales and leasing personnel are salaried professionals who can concentrate on meeting our clients' long term goals, and who work together since sales and leasing are often necessary ingredients to any deal involving I.C.I. property.

Our distinctive competency in I.C.I. sales is founded on our knowledge of the property market through our valuation activities. However, in order to give ourselves a sustainable competitive advantage we have established a marketing program which utilizes information on market activity, to match vendors and purchasers. A core part of this marketing program is the Master Sales Prospectus (MSP) that we prepare on each property. The objective of the MSP is to take as much risk and work as possible, out of the purchase process by presenting prospective buyers with detailed information on the fiscal, physical and legal aspects of the property. Purchasers are returning to the marketplace but since they face a wide range of buying opportunities they are not prepared to "dig" for information and tend to disregard properties that are not well documented, or to discount the price.

MARKET CONDITIONS HALIFAX - DARTMOUTH METROPOLITAN AREA						
Property Type		Property Location		Typical Purchaser	Supply	Demand
Apartments		Halifax	- Peninsula	Local investor	Fair	Fair
			- Mainland North	Local investor	Fair	Weak
			- Mainland South	Local investor	Good	Very weak
		Dartmouth	- Central	Local investor	Fair	Fair
			- Highfield Park	Local investor	Good	Very weak
			- Elsewhere	Local investor	Good	Fair
		Halifax Co.	- Cole Harbour	Local investor	Fair	Very weak
			- Sackville	Local investor	Fair	Very weak
Industrial	- Single Tenancy	Halifax	- Peninsula	Owner occupier	Fair	Weak
			- Industrial Parks	Owner occupier	Good	Weak
		Dartmouth	- Central	Owner occupier	Fair	Weak
			- Industrial Parks	Owner occupier	Good	Fair
Office	- Multi Tenancy - Single Tenancy	Halifax & Dartmouth	Pension/Mutual Funds	Good	Weak	
		Halifax	Owner occupier	Poor	Fair	
		Elsewhere	Owner occupier	Fair	Fair	
Retail	- Multi Tenancy - Strip Centres	Halifax & Dartmouth	Pension/Mutual Funds	Very good	Weak	
		Metro Area	Pension/Mutual Funds/Local Investors	Good	Weak	