TURNER DRAKE & PARTNERS

Newsletter

Vol. 2 No. 47 Winter 1993-94

UPDATE

Did you fail to get your Fall issue? Worry not; so did everybody else. A surfeit of work crowded it out. Not that we are complaining: we too have families to feed, mortgages to manage, taxes to tackle . . . so keep it coming!

It's winter again: the Almanac predicted mild temperatures and lots of rain: so why is it -20°C outside and gusting a blizzard? Is nothing sacred?! First the recession, and now winter casting **its** chilly spell. Businesses already battered by the economy and a fish population that has emigrated en masse, are uneasily waiting, in the eye of the hurricane. Many business sectors in the region face the New Year with a mounting sense of desperation. They have spent the last three years paring overhead whilst looming over them is a mountain of government debt that threatens to eat away their hard won gains and bury them under an increased tax burden. We suspect that 1994 is going to be a watershed year. Unless governments, at all levels, give their overspending serious attention, many businesses in Atlantic Canada are going to fold their tents and steal away into the night. To many in business, government has achieved the status of an occupying power, and its employees a privileged class with "a comfortable contempt for the general public", to quote the Globe and Mail. Recent audits of provincial departments in Nova Scotia, have shown them to be overmanned by a factor of two. We suspect audits of the other provinces and the Federal and municipal governments, would produce similar conclusions. Why then do they not privatize? Privatization has cut costs by an average of 25% in the United Kingdom, up to 40% in some cases. The Nova Scotia Power Corporation, privatized just sixteen months' ago, already claims increases in efficiency of 18%. Meanwhile the clock continues to tick, ratcheting up tax increase after tax increase. No wonder the cod left. Hang in there though: there is help at hand, you can turn the tide, so let's get down to it . . .

PROPERTY TAX DIVISION

TOM MILL$
Vice-President
Property Tax Division

We are pleased to announce that Tom Mills, our million $dollar$ man, has been elected to TD&P's Board of Directors.

Poacher turned gamekeeper, Tom joined us in 1986 after eleven years with the other lot (we privatized him). His team of property tax consultants now save clients in all four Atlantic Provinces, about $1.0 million in property taxes each year. Tom, an ambitious lad, thinks "billion dollar man" has a nice ring; so what are you waiting for? Do you like paying taxes? No?! Well pick up the phone, we'll even pay for your call (1-800-567-3033). Ye gods, if you must squander your hard earned cash, spend **it** on something useful . . . like us . . . and help Tom get his name in the Guiness Book of Records. Do it!

Nova Scotia - your property assessment notices were mailed on the 18th January: you only have 21 days from the date shown in the notice, in which to appeal. If you appealed your 1993 assessment, your 1994 assessment must also be appealed (unless of course it already reflects the reduction in assessment achieved for your 1993 appeal).

If you own non-residential property, your 1994 assessment is meant to represent its market value as at the 1st January 1991, the base date, but having regard to "the state of the property" on the 1st December 1993. The latter qualification is important because "the state of the property" includes its state of occupancy as well as its physical condition . . . so if you own a shopping centre whose vacancy rate has increased since 1st January 1991 you can factor the increased vacancy into the assessment calculations. For example, the City of Halifax has subsidized new retail development in an effort to resuscitate its Bayers Lake Industrial Park. The new Price Club there, will drive the equivalent of a Community Shopping Centre out of business (Newsletter Vol. 2, No. 42, Spring 1992). Other retailers are to follow:

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6182 North Street, Halifax, N.S. B3K 1P5 Tel.: (902) 429-1811 Fax.: (902) 429-1891

Maritime Centre; Halifax, N.S.
($156,000/annum in tax savings)

K-Mart Canada Ltd. have announced that they will open a new store there and IPCF Investments, a division of the George Weston Group has purchased 8 acres. If you are the owner of a shopping centre there is little that you can do to prevent the City of Halifax from driving down the value of your property, since only residential occupiers have the right to vote. However, you can alleviate your tax burden by using the increased vacancy in your retail property to get your assessment reduced.

Incidently the Province is now asking the municipalities to shoulder part of the cost of the assessment process . . . a move which could, in our opinion, threaten the independence of the provincial assessor. Many of the municipalities are upset with the provincial Assessment Department. Unwilling to adjust their own budgets to the new economy, they look askance at assessment reductions and have raised a storm of protest. The assessors, to give them their due, have not let this influence their work. We handled about 1,250 appeals in 1993 and so far have been able to settle 98% of them by negotiation. In our view the Assessment Department has had a bum rap: most provincial assessors are genuinely interested in doing a reasonable job. True there are some exceptions, but in general the assessors are open and fair minded. The provincial Freedom of Information Act gives you, and us as your agent, access to the assessment calculations on your property. However, it is not sufficient to discredit these calculations: you have to prove that the assessment is incorrect. Since the burden of proof is on the taxpayer, we have to prepare a carefully documented case which clearly establishes that the property is overassessed. If the property is not overassessed we will not proceed. It has been our experience that most assessors will reconsider their position when faced with this type of evidence.

Mountain Road, Moncton, N.B.
($42,000/annum in tax savings)

New Brunswick - your assessment notices will be mailed around the 1st April: you only have 60 days from the date shown on the notice, in which to appeal.

Unfortunately assessment practices in N.B. are still firmly grounded in the dark ages: cloaked by a veil of secrecy. Alone of the four provinces, New Brunswick refuses to provide copies of their assessment calculations, making it difficult to determine inexpensively, whether your property is overassessed. Assessment is a provincial function, undertaken by civil servants employed by the Geographic Information Corporation (GIC), an Orwellian organization which has yet to embrace the concept that taxpayers should have the right to verify that they have been fairly assessed by providing copies of the assessment calculations to the taxpayer or their professional advisor. This type of secrecy always makes us uneasy, particularly when it is exercised by civil servants whose salaries we pay. Rightly or wrongly it raises the spectre that they have something to hide. GIC has occasionally condescended to draw their veil aside slightly; we have been allowed to peak at the assessor's jottings and retranscribe them by hand on occasion . . . but no copies have been provided. Notwithstanding GIC's furtiveness, some individual assessors have proven to be more open and have been willing to discuss and reduce assessments that are excessive without the necessity of proceeding to court. Alas there is still a long way to go however. The watch word is watch out! Unless you are confident that you are not overassessed, file an appeal! The basis for your 1994 assessment is the market value of your property as at the 1st January 1994 (the base date). Since most property values have decreased over the past twelve months, your 1994 assessment should be **lower** than the 1993 assessment. Certain sectors such as the hospitality industry, have been particularly hard hit by overbuilding (thanks to ACOA) and the recession. We strongly advise these market sectors to appeal anyway. You should use the following wording, "The assessment is excessive, unfair, not uniform with other assessments and any other grounds that may appear".

University Ave., Charlottetown, P.E.I.
($13,000/annum in tax savings)

Prince Edward Island - you should receive your assessment notices around the 22nd April: you have 45 days in which to appeal. We will mail you a set of decision rules during the appeal period so that you can determine whether you should appeal. The basis for your 1994 assessment is the market value of your property as at the 1st January 1994. Assessment on the Island is a provincial function: the commercial assessors are a fairly professional group and it is rare that we cannot settle an appeal by negotiation.

Newfoundland - relax and pour yourself a rum. Your turn to appeal doesn't come until later in the year. We will be in touch closer to the operative date.

VALUATION DIVISION

Appraisals - To Sue or Not to Sue

Liability insurance claims are all the rage these days. Lenders, astounded to find that the appraisal reports on which they based their loans represent nothing more than a waste of good trees, are fighting back. They seek increasingly to mitigate their loss by suing the appraiser. We are currently advising a chartered bank on one such claim. A recent caution by the Appraisal Institute of Canada (AIC) to its members, therefore caught our eye. The AIC, a trade association, which runs its own insurance scheme (Newsletter Vol. 2 No. 47 Summer 1993) appears to us to be increasingly agitated at the propensity of consumers to file claims. The article, "Claim Statistics Disclose Possible Problem Areas" notes that "Out of 104 open files examined, a full 54 per cent were claims from tertiary lenders (individuals, private mortgage lending companies, etc.) Secondary lenders (Trust companies, credit unions, life insurance companies, finance companies, etc.) represented another 35 per cent. Only 11 per cent of files were due to claims by chartered banks. Also of significance is the fact that mortgage brokers were involved in almost half the loans". The Appraisal Institute of Canada then went on to advise its members "**It is very important that appraisers take care in choosing their clients and in making it very clear who may or may not see the report**". Ah! That's it! It's the **clients** who are the problem, damn their eyes . . . and we thought . . .

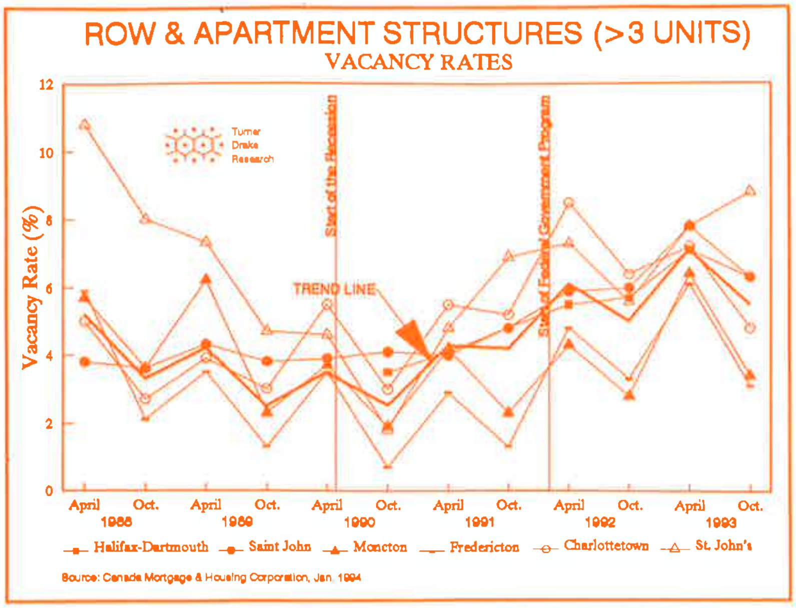
Apartments: No Longer Appealing

Apartment buildings are attractive because they afford investors the opportunity to rent small amounts of space for relatively lengthy periods of time. This reduces risk: the effect of a tenant defaulting on the rent, or of a space falling vacant, is much less pronounced than with an office, retail or industrial property.

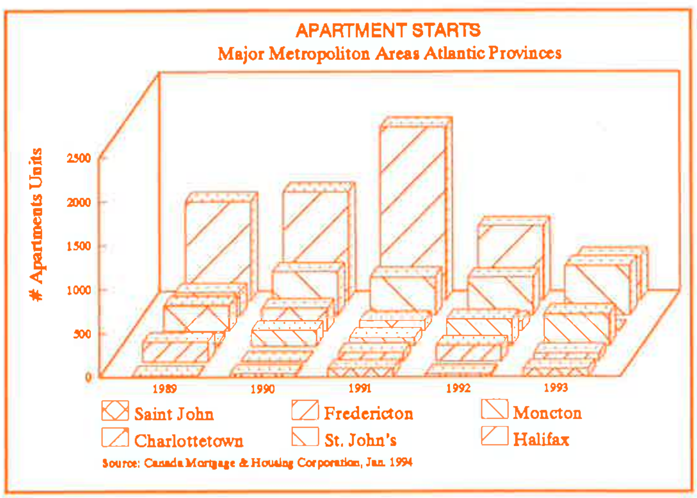
Apartment buildings are often an "entry level" investment for individuals venturing into the property investment field for the first time. Often their first investment is a duplex, the owner living in one unit and renting out the other. Since there are a wide variety of property sizes and prices available, investors can proceed up the ladder purchasing larger properties as their pocket books, credit worthiness and ambitions expand. In a sense, they epitomize the private sector in Canada; entrepreneurs willing to invest sweat equity as well as capital to make their investments work. They provide rental housing stock that would otherwise have to be provided out of the public purse, or would not be provided at all. Naturally, government attention appears to be devoted to thwarting them in these efforts and to give credit where credit is due, they have been reasonably successful. Rent control and lease regulations have increased rental costs and favour bad tenants over good. They have discouraged investors to the point where the institutions eg. life companies, have been divesting themselves of this type of asset. Market demand now emanates from local, rather than national investors. Many buildings over 15 years' of age exhibit deferred maintenance and, now that the condominium market is saturated, will continue to deteriorate. Nevertheless local investors, that hearty breed of masochists, continue to soldier on hoping no doubt that government will eventually see the light and let them get on with the job. Most probably believe in the tooth fairy too. The Province of Nova Scotia for example, has just rescinded rent control, an eminently sensible if somewhat overdue measure (it cost them $300,000/year to monitor and served no useful purpose), however they now propose to tinker with their Residential Tenancies Act to give tenants the right to opt for monthly tenancies on the annual anniversary of their lease renewal, a move that will increase risk, and hence the returns required, and thus force up rents. No doubt they will then reintroduce rent control, citing the increase in rents.

In order to give you a picture of the apartment market in Atlantic Canada we took a look at the vacancy statistics compiled by CMHC (whose help we gratefully acknowledge) for the major metropolitan areas in the region. We graphed the results (next page); the trend line is our own concoction.

As the graph shows, the recession had a salutary effect on apartment dwellers; vacancy rates increased as they moved back into the family home, whilst university students unable to find part time work, stayed there. Vacancy rates were given a further jolt in February 1992 with the introduction by the Federal Government of its home buyers initiative. The lower interest rates had already altered the equation somewhat in favour of buying versus renting, since mortgage payments for first time home buyers had fallen, but those for apartment owners remained "locked in". The Federal Government program which reduced the required downpayment for home purchase to 5% from 10%, and gave emergent home purchasers access to their RRSP funds, acted as a further stimulus to home purchase (see "The Recession" later



in this Newsletter). Unfortunately it also emptied apartment buildings in suburban locations, assisted in the bankruptcy of the odd trust company or two (the result of increased mortgage defaults) and further added to CDIC's woes. Our financial institutions, who were no longer enthralled with real estate following the unfortunate demise of many of their mortgage loans, added fiscal prudence to fiscal prudence and pretty well went off the stuff altogether. Thus it is that apartment values too are now following the rest of the market sectors . . . downwards. We suspect that history will prove the Federal Government's initiative to have been a short sighted exercise for first time home buyers too. Many who chipped in their 5%, have already seen 40% of their equity extinguished as property prices fall again. But such is the way of our political masters: they lurch from policy to policy with all the sagacity of a sailor on his first night ashore.



Increasing vacancy rates are the precursor to falling market rents: and if market rents fall so do apartment values all other things remaining equal. Unfortunately reliable data on the movement of market rents is not available for the major metropolitan areas in the region. CMHC measures changes in existing rentals, not changes in market rents. For example, rent control was suspended in one province, Nova Scotia, in 1993 so the average rents increased in most areas as landlords adjusted them up to market. The CMHC survey thus shows rental rates increasing; despite the fact that market rents actually **fell** in those areas. A misreading of these statistics would lead one to conclude that capital values were increasing; while in point of fact they fell substantially.

A more reliable indicator of apartment values are new apartment starts. As vacancies increase, and market rents fall, the reduced demand is reflected in the lower number of apartment units started. Apartment starts are probably a fairly good paradigm for the shift in market values. As the bar chart shows, apartment starts in New Brunswick were not affected by the recession to any significant degree. Apartment units do not appear to be a popular housing form in Saint John anyway, Fredericton continued to jog along while Moncton, the mecca of the Maritimes, enjoyed a boom. St. John's, Newfoundland too has experienced surprising strength in apartment starts throughout the recession. Charlottetown, P.E.I. and Halifax, N.S. are the main victims of the downturn: apartment starts during 1993 were only 30% to 40% of their pre-recession levels in these two cities.

BROKERAGE DIVISION

We focus our sales and leasing efforts on the Halifax - Dartmouth Metropolitan area; concentrating on the sale of industrial, commercial, industrial (I.C.I.) property and raw land suitable for development, and the leasing of office, industrial and retail space. Since our client base is continent wide, so is our marketing reach. Our policy of cheerfully working with other brokers paid off for our clients in 1993: we sold and leased their property with the help of brokers from across the country.

Leasing

Founders Square, Halifax, N.S.

Leasing was fairly brisk during 1993, though rental rates in the office and industrial sectors softened further as the year progressed. Here, in the trenches, the restructuring of the economy is very apparent: business is on the move, closing, consolidating, changing, expanding. The only constant is change.

In late June/early July we resurveyed office and industrial tenants and found that 5.6% had closed their doors over the past two years. The tentative results from a partial survey last month, indicates that the pace of closures is escalating. The falling cost of telecommunications, together with the ability to get hard copy via fax and computer, are eliminating the necessity for local sales offices for price sensitive, standardized products. The emergence of a better educated business consumer is lending impetus to this trend. Economics of scale often dictate a single office/distribution facility to serve the entire country. For example, software can be ordered from Toronto, via a toll free number at 3:00 pm, with fax confirmation at 3:05 pm, and delivery at 9:00 am the next day, at lower cost and with greater availability than locally. Direct sellers such as Dell, can deliver a computer system from stock in two working days, versus local retailers who typically take one or two weeks to source a similar system. For "commodity products", the optimum location for their office/distribution facility is near the largest market. Initially this will be Toronto and later, as trade impediments are removed, major metropolitan areas in the U.S.A.

The growth in space demand over the past twelve months has emanated from firms offering differentiated products, particularly those that are "service sensitive". The economy has allowed those service orientated firms prescient enough to take advantage of soft rental rates to reposition themselves (literally) to be closer to their customers and their market image. During 1993 we helped a number of firms relocate, among them Halifax Office Products which moved to that architectural gem, Founders Square, in the heart of the city's financial district; Westburne Industries which transferred its operations from downtown Dartmouth to Burnside Industrial Park; and Michelin Tires (Canada) Ltd. which moved its regional head office to City of Lakes Industrial Park.

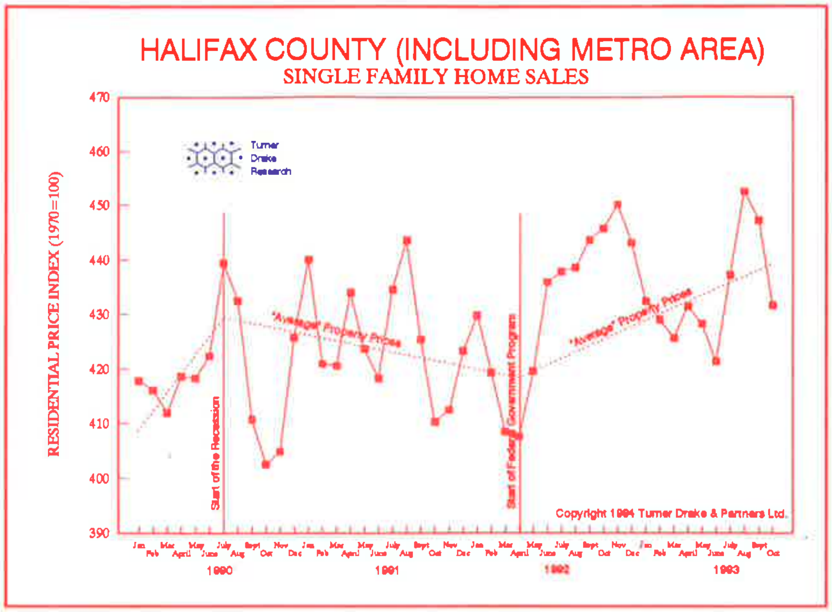
Sales

National Archives, Bedford, N.S.

Demand for **industrials** is unchanged from the last quarter. There is a market for buildings ≤ 20,000 ft.^{2} mainly from arbitragers and owner occupiers, but at 50% to 70% of their pre-recession values. Concerns about environmental contamination (and the associated cost of the audit) coupled with the difficulty of obtaining financing are major impediments, as is the 2% Nova Scotia provincial deed transfer tax. Despite the foregoing, we sold industrial properties in all three major industrial parks (Burnside, Bayers Lake, Atlantic Acres) during 1993. The market for **apartment buildings** is fair on Halifax Peninsula, and whilst weak elsewhere a market nonetheless does exist. Despite the fact that apartment rents have softened during the past six months on Halifax Peninsula, a hitherto unheard of event, demand for apartment land is strong. The **office** sector continues to be weak and rents softened again during 1993. Although there is little demand for investment grade property, small buildings (NLA 2,000 to 4,000 ft.^{2}) do find a market so long as there is parking available. **Retail** demand remains unchanged from the last quarter: it continues to be weak. There is a fair demand for serviced **subdivision land** in neighbourhoods that appeal to first time home buyers even though we suspect that the bloom has gone from that particular rose (see "The Recession" in this Newsletter). However, purchasers seek full services, or at a minimum central water because of environmental concerns, so there is little demand for unserviced land.

Trends - many middle and upper management personnel in their 40's and 50's are now receiving golden handshakes as their employers downsize. They are too young to retire and many cannot afford to do so anyway. They have good business skills and are putting them to work starting their own enterprises, often as franchisees to reduce start-up risk. This is a unique situation: large numbers of mature individuals with the savvy to make things happen, re-entering the workforce as entrepreneurs. Initially they are looking at lease or lease/purchase deals. We foresee this as a continuing trend for the next five years or so, with a concomitant demand for small commercial and industrial properties.

The Recession . . . it ain't over, til its over



Each week we feed Compuval™, our trusty computer succulent morsels of data on residential property sales in the region's largest metropolitan area.

Each month with barely a burp, it disgorges mountains of information on the property market.

Since there is no shortage of speculation as to the precise date the recession started its weary pilgrimage in the Atlantic Region . . . and even more musing as to whether it has reached the end of its journey . . . we asked Compuval™ to undertake the electronic equivalent of disembowelling the odd chicken in order to study its entrails, and thence to prognosticate. It was happy to oblige, and served up this graph. So there you have it: the recession mapped out for you by the ebb and flow of demand for single family homes in the Halifax - Dartmouth Metropolitan Area. The recession hit this region in July 1990 and residential prices plummeted (actually the recession really hit us in May; there is a two month lag in the data, sales closing in July were probably consummated in May). In February 1992, the Federal Government indulged in some judicious pump priming by reducing the downpayment for emergent home buyers to 5% from 10%, and by allowing them access to their RRSP funds for home purchases. Consequently property prices surged upwards, then faltered, climbed again and now appear to be dropping . . . presumably because pent-up demand released by the Federal Government programs has now been absorbed and we are heading back to "normal" recession levels again. Oh dear! The recession just doesn't want to release us from its clammy embrace.

RESIDENTIAL VALUATION

Joe Boutilier, CRA
Manager Residential Valuation

We are pleased to announce that Joseph Boutilier has joined us as Manager, Residential Valuation. Joe holds the Canadian Residential Appraiser (CRA) designation from the Appraisal Institute of Canada and is qualified as an expert witness in residential valuation. We have given him a mandate: ensure that residential clients enjoy the level of excellence that is our croix de guerre. Joe has spent the past six years appraising residential properties in this area.

Our team of residential valuers covers the Halifax-Dartmouth Metropolitan area, and its environs within a 100 kilometre radius. They have Compuval™, our leading edge computerized valuation system at their disposal. Compuval™ covers all of Halifax County, and its database of approximately 50,000 sales contains a total of 1.4 million pieces of information. This gives us an unmatched view of the residential property market . . . we **know** which property prices are going up, and which are falling . . . which means that we can offer you knowledgeable advice not just by guess and by golly.

Mark is back! Mark Unia CRA has returned after an extended vacation. Mark and his wife Sumitra, have spent the past three months proudly showing off their two daughters to friends and relatives in India and England. They left 35°C temperatures to return to our 42 cm blizzard . . . now that's dedication!