

# Newsletter

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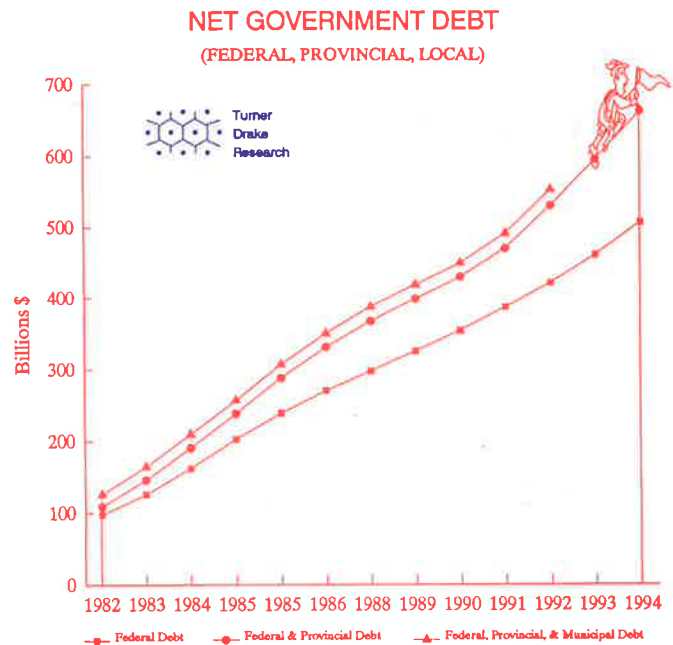
Spring 1994

## UPDATE - Government Debt Keeps a Piling Up!

It's Spring! At last! Life is bursting forth again throughout Atlantic Canada. To celebrate the fact, this issue of Newsletter takes a look at the Moncton Miracle, economic renaissance amidst economic doom and gloom. New Brunswick has weathered the recession better than any of the other Atlantic Provinces: Greater Moncton though is a special case; a little city that has taken several blows below the belt but still comes back fighting. We explain how they are doing it and what it means to the various real estate markets in the community.

As usual we have some advice for recession weary businesses who want to avoid being lumbered with the burden of government deficits . . . and what a time bomb the latter are proving to be (see graph). We also cast some pearls before the swine on the subject of negotiation. Plus our usual insightful comments on the property market . . . and all for the price of thirty minutes of your time!

Thanks for the fan mail . . . the other too. Our articles on privatization (Vol. 2 No. 47) and the Federal Government deficit (Vol. 2 No. 46) evoked a less than rapturous response from some readers. The City of Halifax's Finance Department sniffed at the "claimed increase in efficiency" resulting from N.S.P.C.'s privatization, whilst the Public Service Alliance of Canada faxed us from Charlottetown enquiring about our country of domicile. It's still Canada guys . . . that's why we are so concerned. How about you? More encouraging news from the pages of The Economist though. The program of "market testing" in the United Kingdom whereby many civil servants now have to compete against outsiders for jobs such as the provision of information - technology services to government has saved the taxpayers \$188 million on \$2.36 billion of government



Source: Statistics Canada, April 7th. 1994

contracts. Their experience with outright privatization has cut government costs by an average of 25% (40% in some instances). Presumably this is why Nova Scotia industrialist and lawyer Sir Graham Day was reported to have told Finance Minister Martin in Halifax recently that he could cut 25% from the operating costs of any government department "in the blink of an eye". Let's get on with it: we don't have any time for further waste, the recent turmoil with the dollar is a chilling portend of the future unless we get to grips with the problem now.

## MONCTON - MECCA OF THE MARITIMES?

On March 31st 1994, the Cities of Halifax and Dartmouth, the Town of Bedford and the County of Halifax issued a glossy brochure on their 300,000 population metropolitan area. Prepared with financial assistance from the Province of Nova Scotia and ACOA, the promotional package compared the Halifax - Dartmouth metropolitan area with its four major competitors; Montreal, Toronto, Vancouver . . . and Moncton.

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Monctonians are quick to disavow the miracle. Quite right too; the Almighty has not favoured the city: this is strictly a case of God helping those who help themselves. But then what else would you expect from a municipality prescient enough to adopt as its motto, "Resurgo" (I rise again). Greater Moncton is pulling itself up by its bootstraps: the three municipalities (Moncton, Dieppe, Riverview) and the private sector working together, with copious volunteer help from the community at large. In a town where even the civil servants exude enthusiasm, it is hard not to be impressed.

Greater Moncton faces the same problems as many communities in Atlantic Canada: the decline of its major employer (the C.N.R.), the restructuring of its remaining base industry (distribution and light manufacturing), a population propagating slowly (4% per 5 years) and greying rather more rapidly (8% per 5 years ≥ 55 age group). However, Moncton is unique by virtue of a single, important characteristic; the community itself: working together in a focused way to stem the tide. The manner in which it is doing so is inspiring and the results are impressive. "Moncton", a prominent commercial realtor told us, "is a neat place to live". Right on! (Mind you he did move there from Ontario . . .). Premier McKenna certainly deserves full praise for creating an atmosphere in the province which is conducive to business, his name crops up frequently in conversations with businessmen, usually with the appellation "accessible" attached, but Moncton's head of steam is being stoked largely by community effort.

**Focus on the Future**

The three municipalities that comprise Greater Moncton collaborate on expanding the pie, rather than competing to cut it . . . a marked departure from practice elsewhere in Atlantic Canada. They have just completed a joint sewage treatment and

waste disposal facility and are now co-operating on a water treatment plant: the latter is essential if the area is to retain and attract industry requiring high grade water for its manufacturing process. This proactive approach is exemplified by the activities of the Greater Moncton Economic Commission Inc., a publicly funded body with strong private sector representation on its Board. The Commission has targeted ten sectors for future business (and employment) opportunities. With the aid of 200 volunteers (20 on each sector committee) they are looking at the future face of transportation, environmental friendly industry, etc. to identify areas in which the community has, or can gain, a distinctive competency.

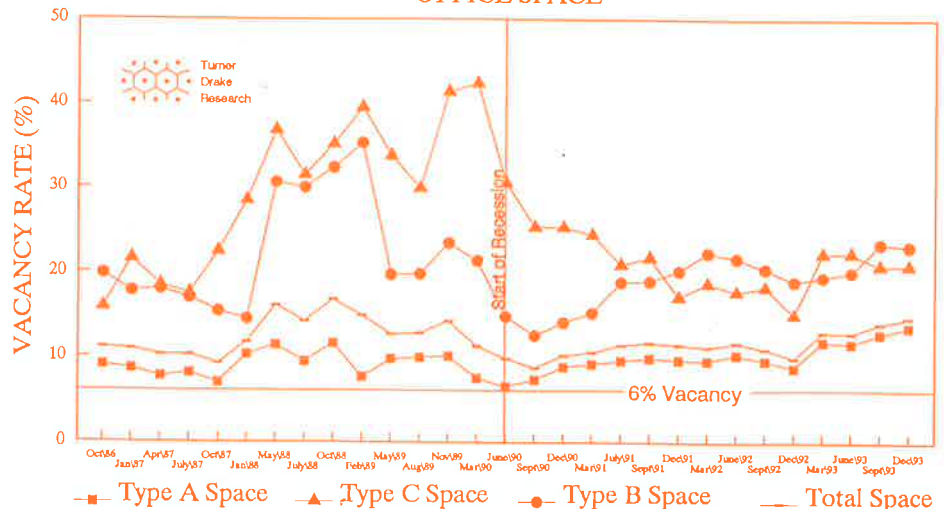
**Working Together to Develop a Distinctive Competency**

Greater Moncton has three inherent strengths: a central location (all major urban areas in the Maritimes are within 3 hours drive), the presence of a bilingual workforce (33% claim French as their first language, 66% English), and access together with the remainder of New Brunswick to a digital telephone network. The announcement in 1986 that the CNR was to close its rail engine repair shops, coming on top of the T. Eaton Co. catalogue warehouse

closure in 1975, was a significant emotional event that galvanized the community into taking the future into its own hands. This is a community that not only welcomes business, but works together to promote it. The role of the publicly funded education establishments, Université de Moncton and the New Brunswick Community College is a case in point. By adopting a proactive stance and providing a bilingual course in telemarketing on both campuses of the Community College the community has levered off its distinctive competencies in telecommunications and a bilingual workforce to snare CP Express, Camco (a General Electric subsidiary), Federal Express and Purolator. Université de Moncton has established a MBA program (in French), thus rendering the region more attractive to executives of firms established, or thinking of establishing there. This sensitivity of higher education to the needs of business is something one normally finds south of the border because American universities often rely on private sector funding, (e.g. Cornell University's hotel school) however the publicly funded Canadian universities are normally more insular.

Greater Moncton has displayed similar business acumen in a reactive fashion. The area lacked a significant live theatre building. Property developer

**CITY OF MONCTON  
OFFICE SPACE**



Source: Moncton Industrial Development Limited, March 1994

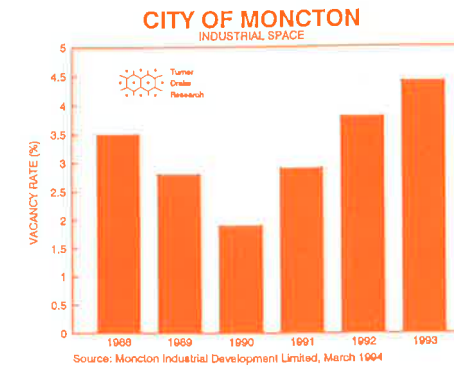
Dick Carpenter, and lawyer David Smith, were instrumental in organizing community support to rescue the (then) derelict Capitol Theatre. A commission was formed, a bank loan secured (guaranteed by the City of Moncton), hundreds of volunteers mobilized and the theatre restored to its original 1920's splendour. The work was completed in September 1993 and by adding significantly to the cultural resources of the community has made it more attractive to new firms considering locating there.

**Office Market**

The graph shows the vacancy rate for office space in the City of Moncton. The space categories are specific to the City. Class A Space, for example includes many buildings that would be categorized as Class B Space in a larger city. Similarly Class B Space would normally be aggregated with Class C in a major city. For the purpose of the graph the following broad definitions apply: Class A Space - first class, high quality professional buildings in a prime location; Class B Space - older buildings, generally in good condition; Class C - renovated offices in buildings constructed prior to 1920. The December 1993 inventory of Class A Space was 1,686,183 ft.<sup>2</sup>, of which 226,027 ft.<sup>2</sup> (13.4%) was vacant, still well above a "normal" baseline vacancy rate of 6%. In addition, the proposed Moncton Place, which will include the new City Hall, will add another 120,000 ft.<sup>2</sup> to the office inventory and increase the overall vacancy rate from 14.5% to 19.5% until some of the older space is retired. Class A rents have softened by about 17% since the recession began, Class B buildings by about 30%. There is a trend to three year (and shorter) terms versus the five year lease term that was the pre-recession norm.

**Industrial Market**

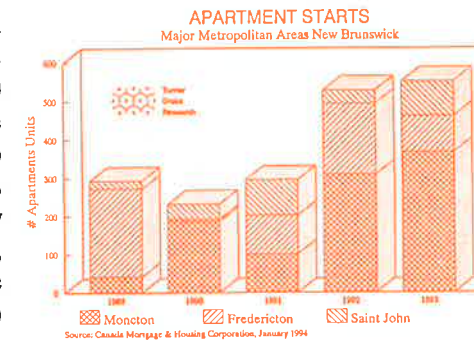
The industrial real estate sector has withstood the recession quite well buoyed by the establishment of new firms and the expansion of others. There are three major industrial parks



in the region: Moncton and Caledonia Industrial Parks in the City of Moncton; and Dieppe Industrial Park. The latter two parks are slated to be linked with a connector highway within the next 3 to 7 years.

The premier park, Caledonia, has been the scene of considerable activity: Drug Trading Company (55,000 ft.<sup>2</sup>), Baxter Corporation (35,000 ft.<sup>2</sup>), Com Dev (12,500 ft.<sup>2</sup>), Canadian Gypsum (40,000 ft.<sup>2</sup>). Nevertheless, rents have dropped by 12% to 20% from their pre-recession levels although there are signs that they are starting to strengthen again following the announcement of the Strait Crossing (to P.E.I.). The effects of the economic restructuring are evident however: tenants are downsizing and seeking shorter term leases.

**Apartment Market**



There has been an explosion in apartment starts in Greater Moncton over the past two years: 368 units in 1993 alone. The community easily leads the way for apartment construction in the Province (see Bar Chart). Many of these units were built in Dieppe. The activity is partly a

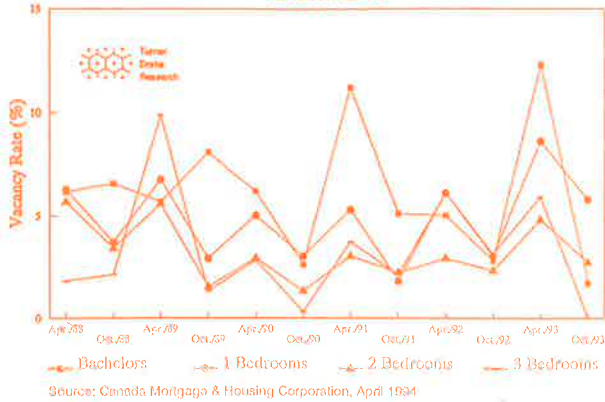
response to the anticipated demand for accommodation by workers employed on the Strait Crossing and partly demand from call centre employees of recently established firms such as Purolator, Federal Express, etc. Vacancy rates (see Line Graph) in Great Moncton are seasonal, reflecting demand from students at the university and the two community colleges. However, they are trending upwards, a reflection of the building boom which started in 1992 (309 units). Whilst the recent rises in mortgage rates will defer the migration to home ownership, stimulated in February 1992 by the Federal Government's relaxation of downpayment requirements and use of RRSP funds, apartment owners are nervously looking forward to a rough ride this summer.

**Retail Market**

There is no hard secondary data available on retail supply and demand. Our comments on the retail scene are therefore based on our own experience supplemented with information from property owners, realtors and Downtown Moncton Inc.

Retail in Moncton Central Business District is suffering from the retail evolution that continues to favour discount pricing and convenience. "Big box" discounters such as Price Club have yet to establish themselves in the Moncton area though it is only a matter of time. However, Wal-Mart has taken over the Woolco store in Champlain Place but has not re-merchandised itself yet. Retail rents have been buffeted by the recession and have softened during the past four years falling by 8% (well located Regional Shopping Centres) to 37% (poorly located Strip Malls). Vacancies mirror this picture too: poorly located strip malls are unable to sustain their tenants and are engaged in the depressing ritual of re-leasing to weak tenants, followed by bankruptcy of the tenant, then re-leasing again to more of the same.

### GREATER MONCTON APARTMENTS



finance, there is no inflation (yet) and much higher returns are readily available in the stock and bond markets. Ask yourself what you would pay for the property (not what you would sell it for). If the price is lower than the assessment you are probably over-assessed.

We will be in Charlottetown next month to meet with property owners. If you would like us to drop by and review your assessment to determine whether it is worthwhile proceeding with an audit, call us at 1-800-567-3033 for a free consultation.

### PROPERTY TAXES: Getting Out From Under



Best Western, Charlottetown, P.E.I.  
(\$12,000/annum - 15% in tax savings)

**Prince Edward Island** - you should have received your tax notices on the 25th April: you only have 45 days in which to appeal. Property owners should have received a set of decision rules from us to help determine whether they should appeal. If in doubt, shout it out . . . appeal. You can always withdraw if we find that you are not overassessed. The basis for your 1994 assessment is the market value of your property as at the 1st January 1994. Since most property values are falling, your assessment should have too. If you run a business from your property compare your "bottom line" today with your pre-recession profit level. If it is lower, you are probably overassessed. If you own a motel/hotel, chances are that you are overassessed. If your building is tailored to your business, and technological change has rendered it partly obsolete, you are probably overassessed (buildings housing telecommunications equipment are an outstanding example). If you own an investment property such as an office building, shopping centre, apartment building, etc. you are probably overassessed because real estate is now regarded as a less attractive investment option than before the recession: it is more risky, less easy to



SMI Industries, Bathurst, N.B.  
(\$33,000/annum - 27% in tax savings)

**New Brunswick** - Our analysis of the various property markets in Moncton (see this Newsletter) one of the urban areas that has weathered the recession well, has convinced us that many commercial and industrial properties in the Province are overassessed. The assessment appeal period expired at the end of April, so if you did not appeal, you missed the opportunity for doing so for this year. If you did appeal, and you have not yet contacted us for a professional audit, give Tom Mills or Mike Turner a call (1-800-567-3033). We are conducting audits throughout the Province so we can schedule the inspections to minimise travel costs. The Geographic Information Corporation, the provincial body responsible for assessment, will show you (and us) your assessment records but many assessors will not provide copies of them. They tell us privately that this is not a Machiavellian plot to discourage appeals, but is primarily because they are ashamed to offer them up for scrutiny. Maybe! But surely there is something rotten in the State of Denmark when a taxpayer is denied a copy of his/her tax computations because they are incomplete. Anyway, despite official policy, most assessors are pretty decent and in our experience are reasonably co-operative. G.I.C. does appear to operate a bushfire policy: if you appeal they will attempt to negotiate a settlement to discourage you seeking professional advice (and their dirty linen being exposed to public view). They also

have a habit of factoring up the assessment, year after year, apparently on the blind assumption that property values rise inexorably! Since most values have fallen over the past four years this policy flies in the face of logic. They have also, on at least two occasions, agreed to a negotiated decrease in assessment for 1993, and then increased it again to the same or higher level in 1994. If this happened to you, on any of our 1993 appeals, please let us know. We will undertake the 1994 negotiations at no cost to you, provided of course that the increase is unjustified.



Dalhousie University, Halifax, N.S.  
(\$74,000/annum - 61% in tax savings)

**Nova Scotia** - The appeal period has now expired. If you did appeal and have not yet contacted us, please do so as soon as possible so that we can undertake the audit before the case is scheduled for the Appeal Court. We anticipate that there will be a concerted effort by the Assessment Department to clean up all of the appeals by late summer.

Many of the items addressed by our property tax experts in 1993 were not valuation disputes per se but hinged on "assessability". For example, we acted for the occupiers of a bulk ore shipping facility . . . and discovered that they were erroneously assessed for business occupancy on their wharves. A university was incorrectly assessed for commercial purposes on its parking lots and the support buildings . . . and a private school, exempt under the Assessment Act, had nonetheless been assessed for tax purposes. A vehicle shipping facility too, which should have been exempt because it was owned by a Crown Corporation was also incorrectly assessed. Even if you have not appealed your 1994 assessment, it is worthwhile taxing Tom and his merry men (and women) with the task of tackling your assessment audit.

**Newfoundland** - We are currently undertaking appeals in St. John's and Mount Pearl. The base date for assessment purposes is the 1st January 1990 (St. John's) and 1st January 1993 (Mount Pearl). Although St. John's 1995 assessment notices will not thud onto your desk until December, we advocate a pro-active stance. Get your audit completed **before** the appeal period, rather than after it. If you would like us to briefly review your situation to determine whether you should proceed with an audit give us a call at 1-800-567-3033 for a free consultation. If necessary we will drop over and inspect your property when we are next in your area. Cornerbrook; 1995 is a reassessment year. The base date for assessment purposes is the 1st January 1994. Your new assessments should be mailed around the beginning of March 1995.

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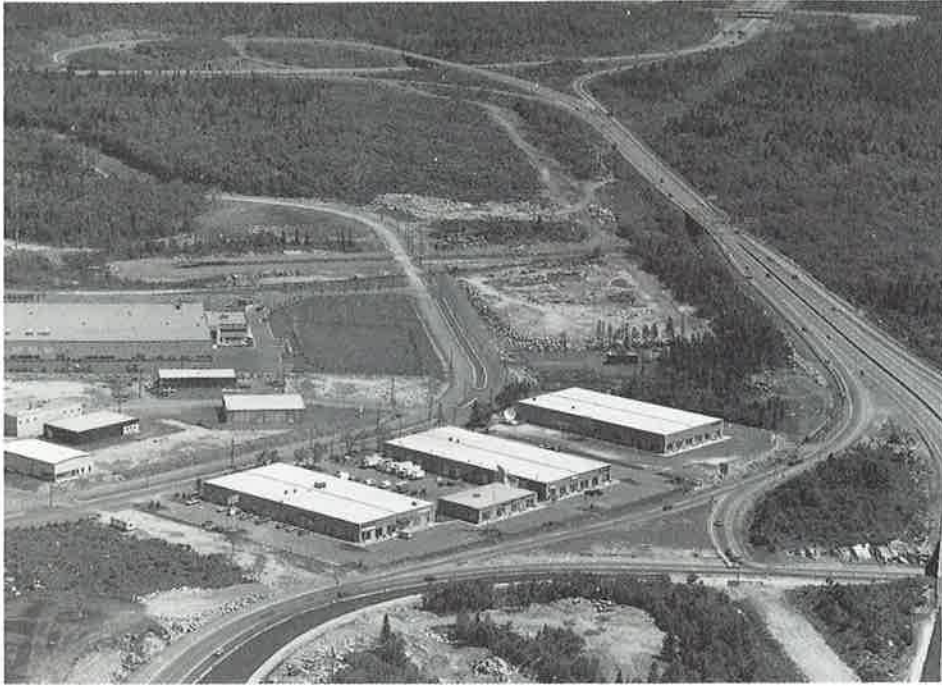
## THE ART OF THE DEAL

We receive numerous calls from people seeking advice on real estate and do our best to oblige on the assumption that a knowledgeable consumer is a future client. A couple of weeks ago we were asked by an embryonic property investor for "tips" on negotiation techniques. "Negotiation" is taught by most universities as part of their commerce program, usually under the title "industrial relations". For example Dr. T. Wagar teaches an excellent course at Saint Mary's University in Halifax and mounted a two day joint training secession for us and the Nova Scotia Assessment Department last year. If you

don't have time to take a course at your local university, invest a few dollars in the paperback "Getting to Yes, Negotiating Agreement Without Giving In", by Roger Fisher and William Ury (Penguin). The authors, Professors Fisher, Ury and Patton teach at Harvard University's Program on Negotiation and the book is an excellent primer. Another good book is "A Behavioral Theory of Labour Negotiations" by Richard Watton and Robert McKersie (ILR Press). Donald Trump's books "The Art of the Deal" and "The Art of Survival" (Warner Books) are less useful but somewhat more entertaining.

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## BROKERAGE DIVISION



Vantage Point, Bayers Lake Park, Halifax, N.S.  
(Photograph courtesy of SunDancer Photo Communications)

Our sales and leasing efforts are focused on the Halifax - Dartmouth Metropolitan area; concentrating on the sale of industrial, commercial, investment (I.C.I.) property and raw land suitable for development, and the leasing of office, industrial and retail space. We cheerfully work with other brokers in the region, and across the continent.

### Sales: Investor Interest Picking Up

**Investment Properties** - there is now a stirring of interest from institutional investors; more a rustling in the leaves than a full blown hurricane. We have just completed our survey of 24 pension and property mutual funds: four evinced interest in investing in Atlantic Canada, up from one, two years ago. Three are seeking industrial and retail properties; the fourth is in the market for Class A office buildings. Well, the early bird catches the worm! The property illustrated above is fully leased and has "going in yields" of 10.21% (all cash) and 11.39% (leveraged). Overall IRR (after leaseholds) is projected to be 12.1% (all cash) and 17.9% (leveraged)

over a 10 year time horizon. Bayers Lake Park is the site of a proposed 1.3 million square feet retail centre. Price Club (118,500 ft.<sup>2</sup>) is already open, Kent Building Supplies (106,000 ft.<sup>2</sup>) will open shortly, K-Mart has been announced together with a George Weston Group warehouse supermarket (75,000 ft.<sup>2</sup>). Call Verna (429-1811) for further details - (brokers too, we are happy to co-operate). **Industrials** - are in good supply, principally in the 15,000 ft.<sup>2</sup> to 25,000 ft.<sup>2</sup> size range, but most are specialist/purpose built, or are overpriced for today's market. Vendors are still attempting to recover their pre-recession investment. **Offices** - there is a fairly good demand for small office buildings in the 2,000 ft.<sup>2</sup> to 5,000 ft.<sup>2</sup> range suitable for owner occupiers. Downtown Halifax is the preferred location and buildings with character (crumbling brickwork and soggy cellars) are much sought after: most however have already fallen down . . . or have been pushed over. **Apartments** - now carry more risk due to higher vacancy rates and hence are less in demand. Ironically the recent abolishment of rent control has contributed to the softening

in rents; there is less incentive for owners of new buildings to hold out for higher prices during the three year period prior to their property falling under the rent review process.

### Leasing: Cut Yourself a Better Deal

Leasing activity falls into two categories: **renewals** - tenants are securing major reductions in rent, usually their second highest expense after salaries; and **relocation** - tenants are utilizing the soft rental market to expand into more space at the same or lower cost. There are two well defined trends: **shorter term leases** - tenants are combatting uncertainty by laying off part of the risk on landlords; and **consolidation** - tenants with a number of disparate operations in different locations are now attempting to make more efficient use of labour by amalgamating all of their business activities under one roof.

Most of our leasing activity has been on behalf of landlords: however, the phenomenon, "Tenant Representation", long established in Western Canada, has been gaining in popularity throughout North America. It affords tenants who wish to take advantage of soft markets, the opportunity of retaining leasing experts to seek out and negotiate better leasing deals for them . . . and the landlord writes the cheque! The tenant has the benefit of expert assistance for which somebody else writes the cheque. On the face of it, this appears to present a conflict of interest, but properly structured it actually eliminates the conflict of interest inherent in the present system. It also works to the advantage of all three parties, tenant, landlord and broker because it eliminates the inefficiencies in the present method caused by duplication and overlapping of effort. If you are a tenant with a lease renewal within the next twelve months, call Russ (429-1811) for more information.

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