TURNER DRAKE & PARTNERS

Newsletter

Vol. 2 No. 49

Late Summer/Fall 1994

UPDATE

What a terrific summer: the best we've had in Atlantic Canada for a decade. Now it's Fall again: the smell of damp leaves mingling with the tang of wood smoke; an autumnal nip in the air and the promise of crisp clean snow under clear winter skies. The economy is changing too: we can sense it, feel it, see it. If only our governments would stop fitting our money away on pointless grants and silly schemes, and let the private sector get on with their job. Too much to hope for we suppose: but the waste is obscene . . . and unrelenting.

In this issue of Newsletter we tackle trends in the office market; tell you how to save on taxes, real property and capital gains; and open our usual window on the sales and leasing scene in the region's capital city.

TEMPLES TO A DYING DIETY?

Are office buildings going the way of the dinosaur? Will our children's children wonder at the quaint work habits of their grandparents, as they surf along the Internet, comfortably commuting electronically down the information highway? Are buildings like these, monuments to Mammon . . . or a safe haven for your pension fund? Read on, and find out.

The office is dead, the relic of a workstyle rendered obsolete by the falling cost of telecommunications and the ascendancy of a knowledge based economy . . . so runs the argument in favour of its demise. There is much empiric evidence to support this supposition. Almost one third of Purdy's Wharf, the two splendid buildings that grace our photograph, lie vacant; a condition common to many others in Halifax's downtown core. In fact the situation is so critical that serious consideration is being given to the conversion of several office towers to residential use.

Our Brokerage Division reports a trend to the elimination of branch offices as companies struggle to reduce costs: employees now work from home, or their cars, aided by computer modems, fax machines and cellular phones; or have migrated to Business Centres.

Firms are more footloose too: a New York insurance company now processes claims in County Kerry, Ireland, to take advantage of lower salaries and other operating costs. Fibre optic cables favour traffic over distance: it is now cheaper to phone Los Angeles, California than Sydney, Nova Scotia from Atlantic Canada . . . and vice versa. Moncton, New Brunswick, is preferred to Montreal, Quebec, as a call centre location. Moncton's population is better bilingually. . . and they work for less; the living is easier too. Look out Minneapolis, Minnesota, Moncton's on the march! All this **before** video conferencing takes its rightful place on the world communications stage . . .

Not only are jobs migrating worldwide: demand for office space is shrinking too as electronics replaces paper for storage and transmission of information. BT, the United Kingdom telecommunications giant, anticipates that its office space requirements will shrink from the present 75 million ft.^{2} to 15 million ft.^{2} by 2010. Oh woe, things look black indeed . . . or do they?

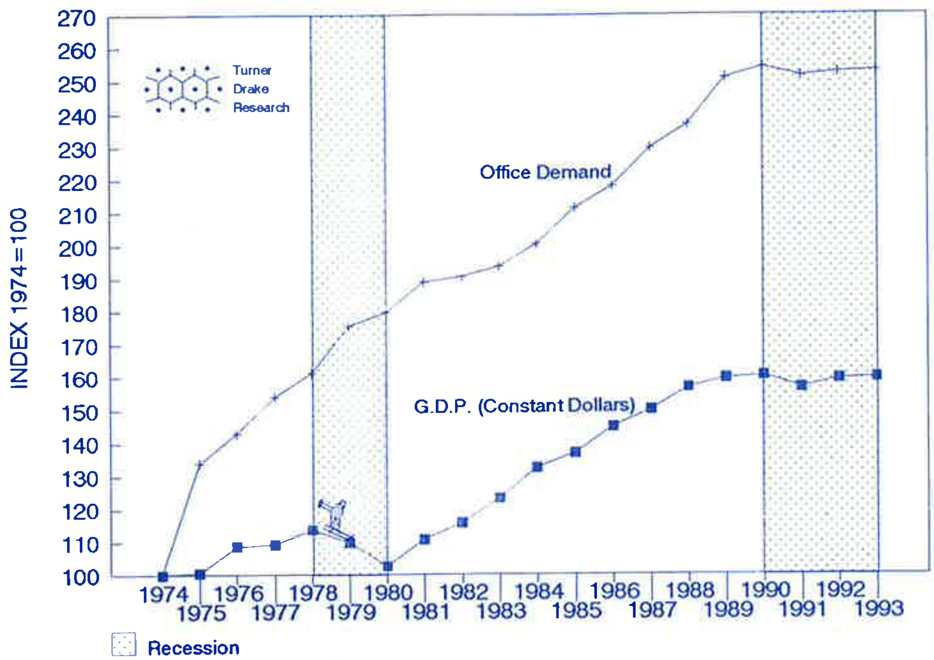
The Recent Recession: A Seminal Event?

To find out we examined the impact on the office market, of the recent structural change that has and continues to take place in the economy. The recession, which started in May 1990, lent impetus to this change. We chose the Greater Halifax metropolitan area because it is the largest office market in Atlantic Canada, reliable statistics are available, and since the area has not been uniquely effected by events specific to the locality the results of our investigation should have general applicability. In other words, unless demand for office

IN THIS ISSUE

Newsletter is published by Turner Drake & Partners Ltd., Real Estate Counsellors, Brokers & Valuers
6182 North Street, Halifax, N.S. B3K 1P5 Tel.: (902) 429-1811 Toll Free: (800) 567-3033 Fax.: (902) 429-1891

GROSS DOMESTIC PRODUCT VERSUS OFFICE DEMAND



National Gypsum, Dartmouth, N.S.
($41,500/annum - 17% in tax savings)

space is impacted by events which are unique to its catchment area, such as the closure of the cod fishery, our conclusions will be equally valid for all metropolitan areas in the Atlantic region, and beyond.

The results of our analysis are shown in the graph. We processed the Gross Domestic Product (Market Prices) for Nova Scotia into constant dollars by applying the provincial Consumer Price Index and then converted them into an index with a 1974 base date (1974 = 100). Greater Halifax has a metropolitan area population of 329,000 and a total office inventory of 10.4 million ft.^{2} (June '94). It is the centre of the Atlantic Region (population 2.3 million) as well as being the provincial capital. Office demand for each year in the time series was computed by deducting office vacancy from the cumulative office inventory.

There is a strong correlation between growth in the real G.D.P. and demand for office space: in fact 87% of the change in office space demand can be explained by changes in the real G.D.P. The probability of this result arising by chance is less than 0.1% Prior to the recession, each 1% real growth in G.D.P. resulted in a 1.8% growth in office demand. However, the recession changed the water on the beans: each 1% growth in G.D.P. now translates into a 0.6% growth in office demand. If this proves to be a new trend the tax revenue generation implications for municipalities are profound. In Greater Halifax for example it will be six years before developers start assembling land for new office buildings and eight years before major construction takes place. This assumes 2.5% real growth in G.D.P. Those municipalities that rely on office expansion to fund their burgeoning fiscal obligations may well find that this particular goose no longer lays golden eggs. As for the owners of office buildings . . . sorry guys, if this **is** a new trend the older space should be put out to pasture . . .

PROPERTY TAXES

Nova Scotia: The War Wages On.

Things turned ugly this year for taxpayers in Nova Scotia. Whilst the new Liberal government of Dr. John Savage trumpets the message that "the province is open for business", the Provincial Assessment Department has gone on a rampage which conveys exactly the opposite information. In fact **so bad is the situation, we would advise any enterprise contemplating setting up business in Nova Scotia to explore the other provinces in Atlantic Canada instead.** Still come here of course, this is a great place to live and work . . . but give Nova Scotia a miss until the government regains control of its civil service.

Each province in the Atlantic region files its assessment roll annually: all with different dates, appeal periods and valuation base dates; a Machiavellian plot no doubt to keep our Property Tax Division on its toes. The Nova Scotia assessment notices are mailed on or around the 18th January and there is a 21 day period in which to appeal. Unless an appeal is filed within this time period, the assessment cannot be altered for the remainder of the year. There is one exception to this rule; if the assessor discovers that the property is **overassessed** because of a gross and manifest error, he can **reduce** the assessment at any time. This situation is rare. Once the assessment is published in January therefore, firms and property owners can strike their budgets knowing that their tax liability can be estimated with some certainty. At least that was the situation . . . **this year the Provincial assessment department decided to give itself a twelve month appeal period.** The bizarre method it employed is worthy of a Le Carré novel. The assessor asked the Appeal Court to increase assessments of properties that were, in the assessor's view, underassessed. Under Section 76 of the Assessment Act "the court may of its own motion, increase the valuation of the property". The taxpayers were not notified until **after** the Court had made its decision. . . which came like a bolt out of the blue. At this point the shell shocked taxpayers were advised that they had 21 days in which to appeal the Court's decision, to

Location	Original		Revised		Date Decision Rendered Under Section 76
	Assessment	Annual Taxes	Assessment	Annual Taxes	
Halifax	$ 62,600	$ 930	$10,074,800	$149,641	24th December 1993
Dartmouth	$1,743,100	$61,368	$ 3,667,300	$130,922	23rd December 1993
Halifax	$4,051,300	$60,174	$ 9,619,200	$142,874	22nd August 1994
Halifax	$ 148,800	$ 2,210	$ 3,720,600	$ 55,262	20th September 1994

the same court that had already rendered that decision. They were then given just 14 days to prepare for the court hearing. The impact on the taxpayers is not picayune: we have listed some examples in the table above showing the original and the revised figures issued by the Court as its Section 76 decision. All are being appealed to a higher court.

Now of course, the Assessment Appeal Court is meant to be independent, it is a judicial body which normally hears both the assessor and the taxpayer, and then renders its decision. We have no reason to believe that the decisions it renders are overtly biased. In practice however its relationship with the Assessment Department is, in our view . . . well, too close for comfort. The Court Recorder is an Assessment Department employee so the assessor controls the scheduling of the court hearings and often in our opinion, blatantly misuses this power as a negotiating tactic. The courtroom is usually located on the Assessment Department premises and the court itself consists of a single chairperson, usually a young lawyer appointed by the government of the day, who sits around the same table with the same assessors, day in day out. The taxpayer of course is always behind the eight ball because he bears the onus of proof: it is necessary to prove that the assessment is wrong. To be fair to past chairpersons, their decisions have generally gained in stature with experience. When first appointed they often show a reluctance to "upset" the assessment: however as they gain knowledge most have shown a willingness to reduce the assessment when the taxpayer, or its representative (us), furnishes proof that the property is overassessed. However, in 1993 a new provincial government was elected and they appointed a new batch of Assessment Appeal Court chairpersons. Since then we have been involved in court cases in Sydney, Amherst and Dartmouth where the new chairperson has refused to "upset the assessment" despite what is in our view, compelling evidence in the form of transactions involving the property itself, that the property was overassessed. In the case of an office building in Dartmouth, the Court dismissed the sale price as evidence of value on the grounds that the sale "only took 6 months" and the vendor, Manufacturers Life Insurance Company "is not in the real estate business and is therefore not equipped to manage buildings" a fact no doubt which may come as some surprise to Manulife's management team (they manage a large portfolio of office, retail and apartment buildings in the Halifax-Dartmouth area). In Amherst, the Court airily pushed aside evidence in the form of a $125,000 sale price and confirmed an assessment of $1,021,000 despite the fact that a six month $100,000 marketing campaign had produced just three offers, all at the same price. In Dartmouth the Court ignored an **asking price** of $3,450,000 and confirmed the assessment of $5,018,000 because there was "no compelling reason to do otherwise". In Cape Breton, the Court did not offer any reason for dismissing evidence that the purchaser of an industrial property, the municipality, **wanted a cash payment of $1.5 million** before it would take it over. They confirmed the assessment of $3.7 million anyway.

There is something very wrong: as of the 3rd October 1994, there were 96 appeals outstanding from Assessment Appeal Court decisions, to the next court of appeal, the Nova Scotia Utility and Review Board. **This number of appeals is unprecedented and is escalating daily.**

Appearances before the Board are expensive, though the taxpayer has the ability to recover its costs on a successful appeal. Unfortunately there will be considerable delays before the cases are heard and the decisions rendered. During the interim, taxes have to be paid on the original assessment. The municipality is under no obligation to pay interest on the tax refund, though some may do so.

Journey's End, St. John's, Newfoundland
($49,500/annum - 20% in tax savings)

Newfoundland - Your base date, the valuation date for assessment purposes, varies by municipality. Each reassessment is scheduled on a quinquennial basis (every five years, you ignoramus!). The base dates for the 1995 assessment year are the 1st January 1990 (St. John's); 1st January 1993 (Mount Pearl); and the 1st January 1994 (Corner Brook). Your assessment notices for 1995 will be mailed ± 1st December (St. John's); ± November (Mount Pearl); ± God knows (Corner Brook). 1995 is a reassessment year in Corner Brook so there should be ample opportunity for our Property Tax Division to reduce the tax load on your property there. 1996 is a reassessment year for commercial property (excluding apartment buildings) in St. John's; the new base date will be the 1st January 1995. We can save St. John's property owners money by taking a look at their 1996 assessment, when we undertake the 1995 assessment audit.

You don't have to remember any of the foregoing. Just give Tom Mills (1-800-567-3033) a call as soon as you receive your 1995 assessment notice (wherever your property is located in Newfoundland).

Colonial Inn, Saint John, N.B.
($26,500/annum - 54% in tax savings)

New Brunswick - Although your 1995 assessment notices will not be mailed until the 1st April, or thereabouts, the time to take action is now. Be pro-active, let us review your assessment **before** you get your notice. Each Spring our Property Tax Division receives hundreds of calls from upset taxpayers who have just received their assessment notices. It is logistically impossible to deal with them during the 60 day appeal period so clients are forced to file appeals, whether they are warranted or not, to keep their options open. There is a danger in doing so because the assessor has the option of increasing the assessment, as well as decreasing it, once it is under appeal. You can eliminate that risk by allowing us to undertake the assessment audit now, before the appeal period commences. Be pro-active rather than merely reactive.

Inn on the Hill, Charlottetown, P.E.I.
($25,000/annum - 59% in tax savings)

Prince Edward Island - tax notices for 1995 will probably be mailed around the 25th April. You then have 45 days in which to appeal. P.E.I. is blessed with a very professional and open Assessment Department: they are a pleasure to work with. For the reasons outlined earlier to New Brunswick property owners, we strongly advocate carrying out your assessment audit now, rather than waiting until you receive your 1995 assessment notice. Your 1995 assessment will be based on the value of your property as at the 1st January 1995.

CAPITAL GAINS EXEMPTION: Use It or Lose It!

"Filing your 1994 income tax return could save you $40,000." Now, that grabbed your attention! Although we only deal with real estate in this article there are wider implications and you should give your accountant a call for the full picture. Chartered Accountants, Nauss Simpson Cole & Galbraith (1-902-865-2800) have recently published an excellent tax bulletin on the subject: much of what follows has been pilfered from it . . . what's wrong with that . . . it's called research for goodness sake! (A former client, now deceased, God bless him, used to describe accountants as "people who went around after the battle to count the bodies", but we've found this group of CA's to verge on the human. Of course they come equipped with the usual pin stripes, sober ties, lace up shoes, tax jokes . . . the usual hilarity . . . but if you **have** to mix with this sector of society . . .)

The Federal Government eliminated the $100,000 Lifetime Capital Gains Exemption in their February 1994 budget but they also allowed you one last kick at the can. So, if you have not yet used up all of your Capital Gains Exemption, and you acquired real estate other than your principal residence, such as a cottage, office building, industrial premises,etc., prior to March 1992 or own an intangible asset such as a farm quota, you must take advantage when you file your 1994 tax return. Prepare now, don't wait until 1995 with the other idiots. This is how it works with your real estate.

If you, a partnership or personal trust, purchased the property prior to March 1992, all capital gains that accrued between the date of purchase and the 1st March 1992 are eligible for tax sheltering on a pro-rated basis to the 22nd February 1994. Of **course** it sounds complicated . . . what did you expect . . . this was devised by Revenue Canada. Relax, the following example will make it crystal clear.

Let us assume that you bought a small industrial property on the 1st March 1984 for $400,000 and have not undertaken any capital improvements since purchase. Your $100,000 Capital Gains Exemption is still unused. We value your property at $500,000 on the 22nd February 1994 (budget day).

Value at 22nd Feb. '94	$ 500,000
Purchase Price at 1st Mar. '84	$ 400,000
Capital Gain	$ 100,000

Eligible CGA =

Months Prior to 1st Mar.'92 (1st Mar.'92 - 1st Mar.'84)96
Total # Months Owned (22nd Feb.'94 - 1st Mar.'84)120

x $100,000 = $80,000

The new adjusted tax base for your property will now be $480,000 (Purchase Price $400,000 + eligible CGA $80,000). The remaining $20,000 will not be tax sheltered: however it will not be subject to tax until you actually sell the property either.

Is it essential to have your property appraised as at the 22nd February 1994 base date? No! But if you do so, you reduce the risk of matters blowing up in your face when Revenue Canada questions the "transaction". If you are crass enough to spurn our services, check with your accountant before choosing a suitable appraiser. Check with him/her anyway. In the grand scheme of things an "accredited appraisal" means very little and Revenue Canada certainly don't have to accept it as being correct . . . quite right too . . . many appraisals, accredited and otherwise, do not meet USPAP standards!

MORTGAGE UNDERWRITERS: Appraise the Appraiser!

Are appraisals a useful risk reduction tool for mortgage underwriting? Canada Mortgage and Housing Corporation doesn't think so; it abandoned the practice about six years ago following an analysis of its loan portfolio. As the echos of the Confederation Life crash reverberate around the country, and yet another parliamentary committee is struck to find out what went wrong **this** time, we thought it appropriate to turn our spotlight on the appraisal industry in Canada.

Education - Three Weeks Study Does Not a Real Estate Expert Make!

Canada is unique in the English speaking world: it does not rely on its universities to provide education in real estate. The University of British Columbia and McGill University do offer a "concentration" in real estate as B.Comm. electives, and Saint Mary's University also offers two real estate courses, also as electives. (U.B.C. also offer an excellent four year real estate diploma program: this is the educational vehicle we utilize for our valuation staff, coupled with a commerce degree). Generally speaking however the industry relies on its trade association, the Appraisal Institute of Canada to offer training programs.

The table shown below, details the educational and training requirements for each of the major appraisal organizations in Canada, the United Kingdom and the United States. If the latter two countries are used as the benchmark, our training and education falls well below acceptable standards. However, bad as it is, the table does not show the complete picture. The quality of courses available to appraisers in Canada is often suspect. For example courses for recertification for the Appraisal Institute of Canada include introductory computer skills in Word Perfect, Lotus Metro, etc.; normal business skills that develop no additional real estate expertise.

Country	United Kingdom	United States	Canada
Major Appraisal Organization	The Royal Institution of Chartered Surveyors	The Appraisal Institute	The Appraisal Institute of Canada
Professional Designation	ARICS/FRICS	MAI	AACI
Education Required	Honours undergraduate degree or equivalent in real estate. The university course must be accredited by the R.I.C.S.	4 Year degree (any subject) plus II real estate courses totalling 383 hours.	2.5 university credits (introductory courses in economics, accounting & law) plus *3 real estate courses (can be taken as 3 one week crash courses).
Test of Professional Competence	Case Study	2 Demonstration Appraisal Reports	★2 Demonstration Appraisal Reports
Articling Requirements	4 Years in same office as tutor	3 Years in same office as tutor	3 Years (need not be in same office as tutor)
Continuing Professional Development (Recertification) Requirements	60 hours per 3 years	60 hours per 3 years	60 hours per 5 years

*** Note:** New entrants in 1993 face a more vigorous regime, 3.0 university credits, a mathematical course and 8 real estate courses. However, 6 of of the "8" real estate courses comprise the original 3 courses each renumbered as 2 courses. The change therefore is more apparent than real.

★ Note: Reduced in 1993 to a single demonstration report if the student has a half credit university communications course.

Lack of Meaningful Standards

In the United Kingdom, the government works with the Royal Institution of Chartered Surveyors and sister institutions such as the Institute of Chartered Accountants, to implement and police appraisal standards. The United States also utilizes a mixture of government and industry to set and enforce standards. During the 1980's the United States government, shuddering under the impact of backstopping a potential $200 billion (US) loss under its deposit insurance Act because of the Savings and Loan fiasco, told the major appraisal organizations to produce an acceptable set of appraisal standards, or it would do it for them. The result was the Uniform Standards of Professional Appraisal Practice (USPAP) which were implemented in the U.S. in January 1989. In a concomitant move, the various states introduced licencing of appraisers to ensure the implementation of USPAP. The situation in Canada is very different. With the exception of Quebec, government has relied on the appraisal industry to clean up its own act . . . the spectacular failures in the financial industry epitomized by the Greymac, Seaway, Crown Trust scandal in 1983 and the subsequent panoply of trust, bank and insurance company bankruptcies since then is testimony to the success of that policy. The main industry trade association, the Appraisal Institute of

Canada, eventually implemented USPAP in January 1994: though with a certain lack of enthusiasm judging by the appraisal reports that we see. Most appraisers simply ignore the substantive portions of USPAP and merely pay lip service to it. We confidently predict therefore that the parade of financial instutional failures, and the subsequent parliamentary committees to determine what went wrong **this** time, will continue unabated.

BROKERAGE DIVISION

We focus our brokerage efforts exclusively on industrial, commercial and investment (I.C.I.) property, primarily concentrating on the major market in Atlantic Canada, the Halifax-Dartmouth Metropolitan area. We are active in sales and leasing and cheerfully work with other brokers in the region, and across the continent on a co-operative listing basis. We are also members of the Halifax-Dartmouth Real Estate Board and its Multiple Listing Service (MLS).

Sales: Apartment Building Anyone?

Apartment buildings located on Peninsula Halifax, either in the south end close to the universities and hospitals, or proximate to the downtown core have traditionally been regarded as blue chip investments. They were built in the 1970's before the Province of Nova Scotia introduced its rent review legislation: many are signature properties erected by institutional investors. **Most are now for sale.** Although rent review (control) was belatedly suspended earlier this year its corrosive effect has taken its toll, increasing management costs and reducing monies available for maintenance. Ironically the move to suspend rent control was prompted by the need to cut government administrative costs rather than to encourage investment . . . rent control had long ceased to be effective: indeed the sole accomplishment of the government department responsible has been to raise operating costs and to discourage investment, and hence entry to the

Owner	Location	# Units	Asking Price	Price Per Unit
Manufacturers Life	5770 Spring Garden Rd.	185	$ 10,896,500	$ 58,900
Manufacturers Life	South Park Tower	55	$ 2,860,000	$ 52,000
Manufacturers Life	MacDonald	190	$ 9,595,000	$ 50,500
Confederation Life	Somerset Place	249	$ 14,500,000	$ 58,233
Canada Trust	South Point	236	$ 10,000,000	$ 42,373
Halifax Dev. Ltd.	Brunswick & Cunard Sts.	630	±$ 30,000,000	$ 47,619
Sub-total		1,545	$ 77,851,500	$ 50,389
Not Actively Listed	Several	652	±$ 33,000,000	$ 50,613
Total		2,197	$ 110,851,500	$ 50,456

market by new participants. Since the practice of building and operating apartments has been rendered more risky by government interference in the marketplace, investors require a higher rate of return to participate. Tenants have therefore been forced to pay more rent than would otherwise have been the case, had the market been able to operate freely. Those investors who built prior to rent review have found their margins increasingly squeezed, whilst management costs have increased. Many buildings are now twenty years old and exhibit deferred maintenance. Equally significant perhaps is the fact that the government left the bureaucracy in place after it lifted rent control, hence the impediments to new investment, and the factors which increase operating costs still remain. Nor can it refrain from further meddling: on the basis no doubt that it is necessary for the civil servants concerned to be seen to be doing something . . . anything . . . Bill 81 was introduced this Fall to give tenants with at least one year's standing to opt for a month to month lease. This in a city with a full time student population of 19,000! Any student now worth his/her B.Comm. will be able to take a year to year lease for the first year of the tenancy so that they can terminate the lease on one month's notice the following summer when term ends. The destabilizing effect, real or presumed, on any building with a significant proportion of tenants who are students will be readily apparent. Apartment building are no longer an institutional quality investment. However, they do present opportunities for investors with an appetite for risk. . . rewarded of course by a commensurate increase in yields. We are not the listing broker for the properties identified in the table: however a number of other major properties are available, though are not actively listed. If you find "all cash" returns in the 11% to 12% range attractive, please call Verna (429-1811).

We have a number of purchasers seeking buildings with 10 to 20 units on Peninsula Halifax, though not necessarily in the south end. They seek "all cash" returns of 11% to 12% and are willing to pay up to $50,000/apartment unit.

Leasing: Little Large Space Left

Oland Court, Burnside Industrial Park, Dartmouth, N.S.
(Ground Floor ≤ 20,000 ft.^{2}, Mezzanine ≤ 13,500 ft.^{2})

Increased demand for industrial space is one of the more evident signs that the recession is receding. Over the past summer we have been busy leasing space in Burnside, metro's preferred location for warehouse and manufacturing. In fact there is a growing shortage of space in excess of 10,000 ft.^{2} and Oland Court (see photograph) is one of the last remaining large spaces available in the Park. This is a high quality building with a 32 ft. ceiling height and is fully sprinklered. It is subdividable into units as small as 6,900 ft.^{2}, (Ground Floor) and 4,000 to 5,000 ft.^{2}, (Mezzanine) each with their own electrical and heating service. Call Russ (429-1811) for more information.