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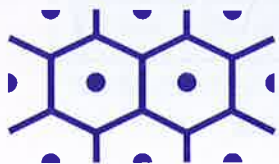
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# WHEN TIME STOOD STILL



Margaret Lucas

The 1990s were not good years for Canadians; most saw their income shrink in real terms in the first half of the decade and only grudgingly expand in the latter half. By 1990 the average Canadian was back where they had been economically ten years before. The evidence was all the more striking when one ventured south of the border or to Europe; two areas that had forged ahead whilst we trod water paying the price for earlier government excess. Our standing in the world wealth order had plunged from fifth position, based on per capita gross domestic product at purchasing price parity, to seventeenth. Our shrinking dollar was a dismal reminder of our reduced means. The most striking evidence of our laggardly progress in the wealth stakes, were the gains in house prices beyond our borders. In fact over the past decade, only three countries in the developed world; Canada, Germany and

Japan, missed out on this housing boom. Even when the growth years of the 1980s are included we occupy the lower rungs of the ladder.

Country	Change in House Prices 1980—2001	
	Nominal	Real
Spain	726%	124%
Ireland	451%	95%
Britain	389%	89%
Netherlands	181%	66%
Belgium	140%	23%
United States	158%	20%
France	155%	15%
Japan	52%	15%
Canada	152%	13%
Italy	343%	13%
Australia	213%	10%
Sweden	183%	6%
Germany	33%	- 21%
Global Index	148%	19%

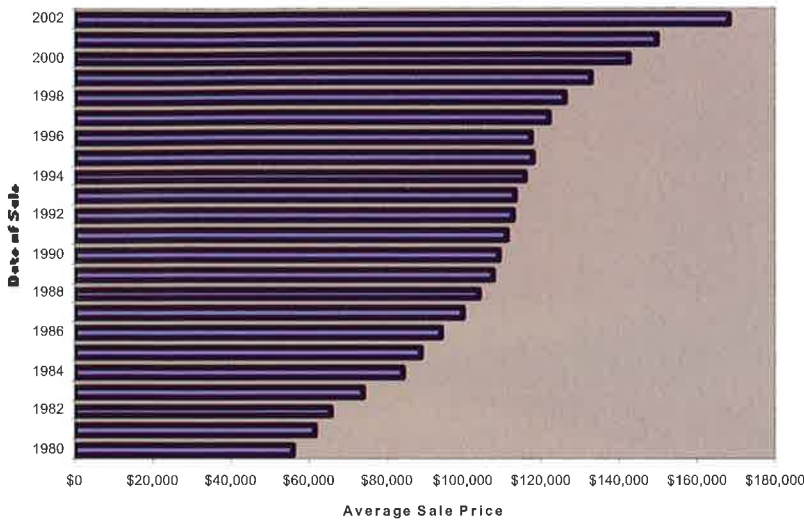
Source: The Economist (March 30th—April 5th 2002)

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Of Kings and Castles

Halifax Regional Municipality (Average Single Family Home Prices)



Source: Turner Drake & Partners Ltd, Compuval™ Database.

Why should we care? The average Canadian is comfortably housed: palatially perhaps compared with much of the world. In fact in Atlantic Canada a housing dollar goes much further than in many other places on the continent. For many however, their home is not just their castle, it provides financial security as well as shelter. It is an important vehicle for saving, more so than any other type of investment. The family home represents about 30% to 40% of household wealth in Western Europe and almost 25% in America (and presumably, Canada). Best of all it is "real" wealth because it is tax free: we can liquidate our investment without the government appropriating part of it for the "public good" ... or we can release funds for business or personal ventures by re-mortgaging the family home. It provides an excellent hedge against inflation because the two are highly correlated: if inflation increases, so do house prices. Hardly surprising, the ability to borrow, and hence buy, is a function of family income. If inflation pushes up family income it has a concomitant effect on housing demand. Best of all there is little downside risk if the property is located in a major urban area in Atlantic Canada. During the past thirty years nominal average single family house prices in the region's largest urban community, Halifax Regional Municipality, have never registered a significant year over year reduction.

Home ownership offers the upside potential of the stock market without the latter's downside risk. 63% of Canadians own their own homes. This repository of wealth affords an important cushion against recession. As house prices rise family wealth increases and home owners are more likely to spend. A National Bureau of Economic Research study, released in November 2001, which compared property prices with the stock market in 14 countries, discovered that changes in the former had at least twice the impact on consumer spending as the same change in share prices (*"Comparing Wealth Effects: The Stock Market Versus*

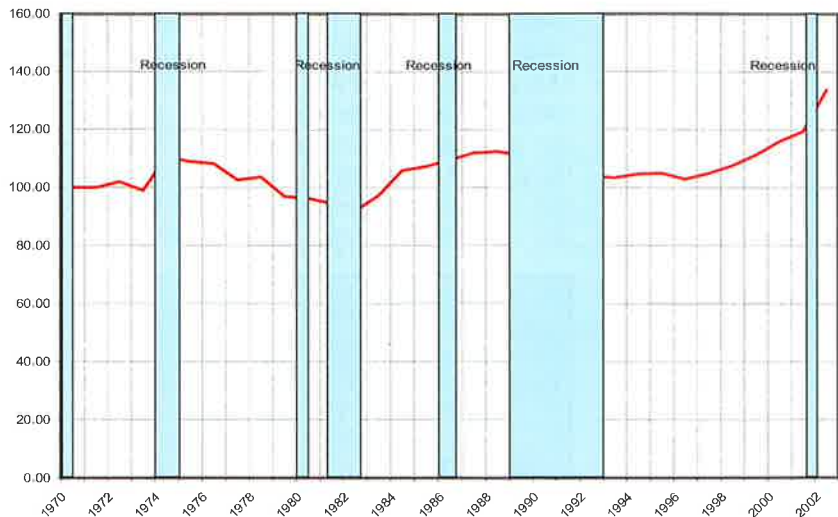
*The Housing Market"* by K.E. Case, J.M. Quigley and R.J. Shiller. NBER Working Paper 8606). The quantity and quality of the housing stock which is owner occupied, and the movement of house prices are important indicators of consumer spending in the community. We have tracked house prices in the Halifax Regional Municipality continuously for the past 24 years: our Compuval™ residential database contains 2.8 million pieces of information on 93,000 sales. It reveals some interesting fluctuations in real, i.e. inflation adjusted, sales prices over the past three decades.

**Ebbs and Flows**

Even under conditions of zero inflation, stable mortgage interest rates and an unchanging housing mix, the average price of a single family home will trend upwards because quality is constantly improving. Thirty years ago R12 insulation was standard in the walls, with R20 in the attic. Today R20 in the walls and R32 in the roof is a minimum requirement. Accoutrements such as energy efficient heating systems, security monitoring, Jacuzzi tubs, European kitchens, and hardwood floors are commonplace. Nonetheless we estimate that the annual impact of this "quality" effect on house prices is quite low, probably about 0.5%.

If the distortion due to inflation on house prices is removed, the real increase in property values looks like this:

Halifax Regional Municipality (Single Family Home Real Price Index)



Source: Turner Drake & Partners Ltd., & Statistics Canada

(Continued from page 2)

Is Atlantic Canada now starting to participate in the world housing boom that passed us by in the late 1980s and most of the past decade? Are we now "banking" our wealth in real estate so that we can sail through future recessions in a relatively painless manner? It's a curious paradox; the recent recession itself contained the seeds of this revival. The absence of inflation allowed the Bank of Canada to follow the U.S. Fed. in lowering interest rates in the run up to the recession. This placed mortgages within the financial reach of a greater pool of purchasers and stimulated demand. Since housing stock is fixed in the short run, prices rose. In areas where land available for new development is fixed in supply, the increase in residential lot prices has been dramatic. This is very much in evidence in the south end of Halifax Peninsula (homes there have risen by 321% since 1978 versus 169% in the suburbs). Homes with water frontage, particularly the ocean, have also experienced major price increases over the past three years throughout the Maritime Provinces but particularly in Prince Edward Island and along Nova Scotia's south shore. The large increase in P.E.I. water frontage values is partly the result of the May 1997 opening of the Confederation Bridge which *finally* ended Canada's isolation from the Island, and the twinning of the Trans Canada Highway through New Brunswick. The most rapid increase in house prices however coincided with the fall from grace of the stock market: humble Hodge, with his modest hovel of thatch and wattle proved to be a more astute investor than those Nortel high flyers so beloved of pundits such as Garth Turner (no relation ... and anyway he's from Ontario). We suspect that the trend will continue: people will invest in their own homes rather than the stock market. It has its corollary in investment real estate; particularly rental residential units. Demand is strong and anecdotal data suggests increasing interest from investors who were formerly active in the stock market and have the bruises to prove it.

**Urban Animals**

The May 2001 Statistics Canada census confirmed what every parent in Atlantic Canada knows. ... we are loosing our

offspring to parts foreign: the United States, Alberta and Ontario. Only little Prince Edward Island experienced positive population growth ... and that individual was probably only there on a day pass. Within the Atlantic Region people are gravitating to the urban areas; our lumberjack activities are now more likely to be conducted within the comfortable confines of Kent Building Supplies ... we are urban animals:

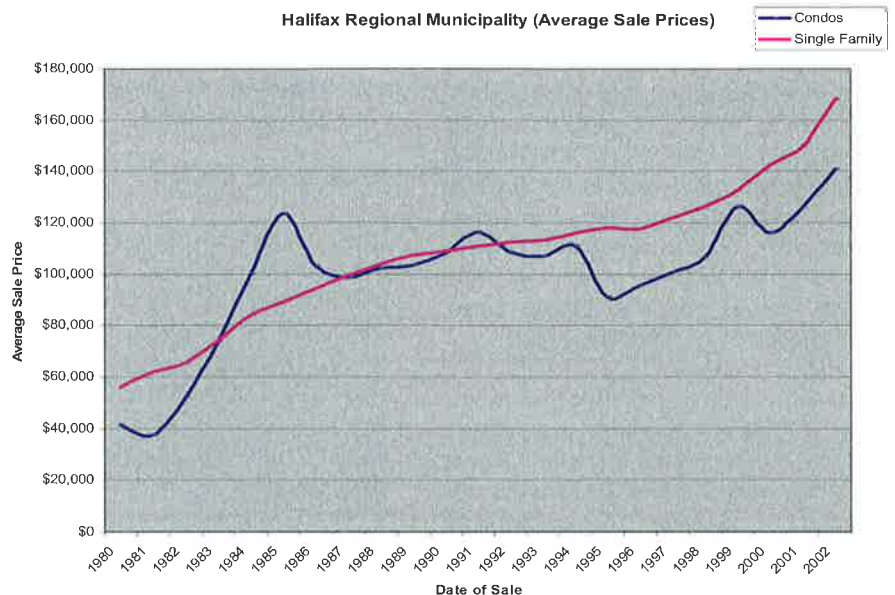
Jurisdiction	Population		% Change
	2001	1996	
Canada	30,007,094	28,846,761	4.0%
Nova Scotia	908,007	909,282	- 0.1%
New Brunswick	729,498	738,133	- 1.2%
Newfoundland	512,930	551,792	- 7.0%
Prince Edward Island	135,294	134,557	0.5%
<b>Atlantic Canada</b>	<b>2,285,729</b>	<b>2,333,764</b>	<b>- 2.1%</b>
Halifax CMA	359,183	342,966	4.7%
St. John's CMA	172,918	174,051	- 0.7%
Saint John CMA	122,678	125,075	- 2.4%
Moncton CA	117,727	113,495	3.7%
Fredericton CA	81,346	78,950	3.0%
Charlottetown CA	58,358	57,224	2.0%
<b>Metropolitan Areas</b>	<b>912,210</b>	<b>891,761</b>	<b>2.3%</b>

Source: Statistics Canada.

**City Centre Citizens**

As our population ages it is moving back to the city core. Retired empty nesters are sacrificing the joys of property maintenance, selling their suburban homes and renting or buying apartments closer to downtown amenities. This presages a revival of city centres many of which are ignored by the municipal governments because they lack voters. (Businesses pay the bills but are deprived of any say in how they are spent). As a result central business districts such as Halifax are dirty, neglected, disfigured with graffiti, "wild" postering and vacant lots (many government owned). Yet Atlantic Canada contains many fine buildings, some classic Georgian structures dating back to the early 1880s: the demand is there, only the political will is lacking. Condominium apartments in our downtowns are relatively inexpensive: that is changing.

Our graph shows the average sale prices, in current dollars, of condominium apartments on the Peninsula area of Halifax Regional Municipality, compared with the average price of a single family home in the municipality. The entire Peninsula is within walking or biking distance of the Central Business District. Condominium prices rose sharply in the first half of the eighties; the market then softened in response to over-building and "bottomed out" again in 1995. Prices are now on a steep upward projectory, shadowing the performance of single



Source: Turner Drake & Partners Ltd., Compuval™ database

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family homes. At a current day average price of \$141,000 they represent one of the world's better buys. A similar apartment in New York will set you back a nifty \$1.33 million, London a lavish \$1.25 million, Dublin a doubtful \$578,000 and bargain basement Brussels \$234,000. Oh, and Toronto a terrible \$371,000.

### So Real Estate is King?

Well maybe not the king, but Canadians continue to put their money where their castles are, building family nest eggs to cushion the effects of the next recession. Move over John Roth, humble Hodge has a few tips he'd like to share with you.

For the full text of "Comparing Wealth Effects: The Stock Market Versus the Housing Market" NBER Working Paper 8606: visit NBER's web site at [www.nber.org/papers/w8606](http://www.nber.org/papers/w8606).

## PROPERTY TAX DIVISION

### Prince Edward Island

Your year 2002 Assessment Notices were mailed on April 30th and the appeal period ended on June 14th. The basis for your assessment is the market value of your property on January 1st 2002, however most property is under-assessed, rendering an appeal technically problematic. There is no "uniformity" provision in the Assessment Act so you are between a rock and a hard place if your assessment is simultaneously (1) higher than comparable properties and, (2) lower than its market value. This is becoming an increasing problem in provinces that do not legislate uniformity. By keeping the assessment below market value, the assessment authorities effectively rob taxpayers of their right of appeal. From a practical viewpoint however the situation can often be resolved by negotiation at the assessor level provided that the latter is prepared to recognise the inequity of assessing similar properties at different values. With that in mind we have built an assessment database by asset class, assessment year and property location, for the four Atlantic Provinces. So, for

example, we can compare all the hotels/motels in the region and express their individual assessments on a "per room" basis. Since outliers are more easily identified in a graph, we can also present the results pictorially, usually as a bar chart or line graph.

*Rick Escott is our P.E.I. Tax Team Leader. He will be pleased to discuss your property assessment and can be reached toll free at 1-800-567-3033 (e-mail [rescott@turnerdrake.com](mailto:rescott@turnerdrake.com)).*

### Nova Scotia: Saving The Fishery



Clark's Harbour, Nova Scotia  
(\$19,000 — 9% in Tax Savings)

Service Nova Scotia, the provincial assessment authority, has indicated its willingness to negotiate year 2003 assessments before the roll closes at the beginning of December. If your property portfolio is enrolled in our PAMS™ Property Tax Manager program we already have matters in hand. If you are not PAMS™ protected we suggest that you take advantage of SNS's offer. Your 2003 assessment will be based on the market value of your property as at the January 1st 2001 base date.

*Please call our Tom Mills or Giselle Kakamousias toll free at 1-800-567-3033 (429-1811 in Halifax Regional Municipality) for more information.*

### New Brunswick: Small Fry, Big Tax Savings

Since 1996, owners of industrial property in New Brunswick have been waiting for the other shoe to drop. That was the year Service New Brunswick, the provincial body charged with assessing real property, successfully defended their inclusion of equipment power wiring as part of the real estate in the N.B. Court of Appeal case *Miramichi Pulp and Paper Inc. 65/95/CA*. The principle



Hartland, New Brunswick  
(\$78,000 — 25% in Tax Savings)

thereby established also has implications for equipment foundations, storage tanks ... all types of machinery, equipment, apparatus and installations. They will be assessable if the real estate cannot function for its designed purpose without them. You must be careful therefore with any appeal, to categorize any buildings on your property correctly. Better still, be pre-emptive: when the Provincial assessor pays you a visit be aware that you are walking through a minefield, tread carefully ... or call Tom Mills our Vice President Property Tax at 1-800-567-3033 for advice.

Equipment per se is not assessable in New Brunswick. Electrical power distribution systems on the other hand fall within the definition of "real property" and are assessable. Since machinery and equipment is not assessable, electrical power systems whose sole purpose is to feed process machinery forms part of the equipment, not the real estate, and is unworthy of the tax collector's attention. In effect the electrical power distribution system is transformed from "assessable property" to "non-assessable equipment" at the point where it serves a single user. In practice the point at which this occurs is difficult if not impossible to determine with "special purpose" buildings. In the *Miramichi* case, the Appeal Court took as their starting point the building that housed the process machinery and equipment. They then asked if the building was specifically designed to house the machinery and equipment and, if so, whether the power wiring was a pre-requisite to it fulfilling its designed roll. If the answer was "yes" to both questions, then the power wiring was assessable since it formed part of the real estate, and not the equipment.

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Last year we were also involved in the case of *Small Fry Snack Foods Inc. versus Director of Assessment* heard by the New Brunswick Assessment Review Board. Small Fry's Hartland plant processes potatoes into chips. The Director of Assessment argued that the vegetable oil storage tanks on the property were assessable. The Board applied the two Miramichi Pulp and Paper tests: (1) was the building which housed the process equipment designed specifically for that purpose? and, (2) if it was not, did the tanks serve the building; or the equipment? In its unpublished December 11th 2001 decision the Board determined that (1) *"The subject property ... represents a fairly utilitarian structure comprising a large, pre-engineered industrial building suitable for single occupancy. It is therefore adaptable to more than one use and accordingly, it can be evaluated as if they appeal to a broad market"* and (2) *"the tanks do not provide services to the building"*. The Board determined that the tanks were not assessable.



European Pressphoto Agency

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**OOPS! WE BOOBED!**

Our Winter/Spring 2002 (Vol. 2 No. 71) mistakenly identified the base date in Ontario for the 2003 assessment year as the 30th June 1999 instead of 30th June 2001. Thank you Patrick Leclair of the Hudson Bay Company for alerting us to the error: it was on our web site too. Tut, tut. Why didn't the rest of you spot it? Are you asleep? Stay alert we've cunningly inserted a deliberate error in this issue too, so read carefully ... all of it.

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**ALIAS BE DAMNED!**

Are you an accountant; a member of al-Qaeda; in a witness protection program; or plead other equally valid reasons for disguising your identity? No problem: but chances are you receive more than one copy of Newsletter. Take care: hoarding Newsletters places you beyond the pale. Call our switchboard toll free 1-800-567-3033 (429-1811 in H.R.M.), or e-mail us at [tdp@turnerdrake.com](mailto:tdp@turnerdrake.com), and ask to be terminated ... do it now.

**LASERCAD—DO YOU MEASURE UP?**

Apparently not! We do though: everyday the more virile members of our staff strut their stuff through the shopping malls, offices and factories of Atlantic Canada. Lasers at the ready, they measure everything immobile; offices, shops, warehouses, factories, apartments, civil servants ... if it moves not, it's ours.

In this era of Enron, where distrust reigns supreme isn't it nice to know you have us: honest, unbiased, competent and poor. Diogenes put out your lamp, you've found us ... we have nothing to hide.

Over the past 25 years our Lasercad™ lads (and lassies) have measured over 10,000 buildings and tenant spaces in the Atlantic Region. They have hung out in hangars, worked in warehouses, sidled into shops, lurked in libraries, operated in offices and fondled in factories. They now bring an enhanced degree of precision to the process. Using a precision laser system accurate to within 3 mm they are in and out in no time. The result is captured by our CAD system to produce laser sharp plans and Space

Certificates which can be incorporated into leases and provide a sound foundation for the landlord/tenant relationship.

**We Are Discreet**

We treat all the information gathered by Lasercad™ in the strictest confidence. Our staff are salaried: it is a condition of employment that they place the interest of our clients, past and present, before their own by scrupulously avoiding any conflict of interest. To ensure that this policy is vigorously implemented we do not utilise any information, obtained from a client during the course of any assignment, in any manner that may be against that client's interests without first alerting the client to the possible consequences and obtaining their express permission.

**And Thorough**

We work to a closing error of  $\leq 2\%$ . The processes we employ, and the calibration of our measuring equipment, is governed by an ISO 9001 registered quality system. This entails internal audits by our staff and an annual external audit by QMI, a division of the Canadian Standards Association (CSA).

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**And Poor**

We should charge more. Not only are we better looking than the competition; we're better dressed too ... well perhaps not better looking ...

For more information about our *LaserCAD™ Space Measurement Service* call our *laserlad André Pouliot* toll free at 1-800-567-3033 (429-1811 in H.R.M.) or get the *Full Monty* by visiting our web site [www.turnerdrake.com](http://www.turnerdrake.com) (corporate site → products → counselling → space measurement).

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**EGG HEAD**



Dana Corbin, B.Comm., Eg.Hd.

It is nine years since we adopted the University of British Columbia's Urban Land Economics program as a compulsory component of our training program. New recruits join us with a commerce degree and then pitch straight into UBC's four year program, whilst carrying a full work load. Our newest recruit Dana recently achieved the highest score countrywide in the Residential Construction course and barely missed garnering the same accolade with their Capital Markets and Real Estate course, taken concurrently. Well done guy!

So far our consulting staff have swept the field. Giselle Kakamousias, Bruce Scallion, André Pouliot and Mark Turner have also claimed top honours in the program ... perhaps it's the drinking water.

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**BROKERAGE DIVISION**



If your lease expires within the next 12 months, pay attention! Our *Mainly For Tenants* program is designed specifically for you. It gives you a window on the office, industrial, and retail (showroom) markets in the Halifax Regional Municipality and facilitates the process of you finding suitable space at an affordable price.

Each month until your lease expiry date, we will e-mail you an MFT bulletin showing the cost and availability of space in the commercial areas of H.R.M. The bulletin is succinct: designed for busy decision makers the information is contained on a single page.

MFT is a free service, there are no joining or membership fees and you can unsubscribe at anytime. Naturally we hope that you will utilise our services if you decide to re-lease, but there is no obligation to do so. *(Notwithstanding that leasing fees are traditionally paid by the landlord, we can enter into a contractual relationship to act on your behalf locating space that best meets your space and budgetary considerations, by obtaining proposals from suitable landlords).*

**Looking For Space?**

Many tenants are masochists, intent on doing things the old fashioned way. Yet "comparison shopping" for office, industrial and retail space does not have to be time consuming, expensive, frustrating and confusing. It is pointless to shop around from landlord to landlord, broker to broker, building to building. All the major landlords, and many of the smaller ones, provide data feeds on space availability to each of the commercial brokers. And the

commercial brokers routinely distribute information to each other on the space they have for sub-lease. The leasing market is transparent, organised and relatively friction free. The real challenge lies in interpreting the various leasing packages. Take for example, the most common unit of comparison used by prospective tenants to measure occupancy costs, the rent per ft.<sup>2</sup>. There are at least five different methods in use for measuring space and numerous ways of expressing the rent. Even terms such as "triple net rent" mean different things to different people. Unless all of the rents of the competing spaces are expressed on the same basis, the quoted rental rate per ft.<sup>2</sup> is meaningless as a basis for comparison shopping ... and that's before things become complicated! Throw in a few items such as leasehold allowances, rent-free periods, discounted rents, relocation costs and it becomes very difficult to decide, without expert help, which space is the "best buy" for you.

**Get With It!**

Once you are enrolled in our MFT program we can, (1) keep you current with monthly bulletins on space availability, (2) provide you with expert assistance to interpret and negotiate the leasing package best suited to your business requirements, (3) keep you continuously "in the loop" through your own password protected Client Area on our web site, (4) recover our costs from the landlord, not you. Sounds too good to be true? We are happy to provide references.

Call Russ Allen at 429-1811 or e-mail him at [rallen@turnerdrake.com](mailto:rallen@turnerdrake.com) to enrol in MFT.

For information on properties we have for lease or sale visit our web site [www.turnerdrake.com](http://www.turnerdrake.com) and follow the links (corporate site → products → brokerage).

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