TURNER DRAKE & PARTNERS
Real Estate Counsellors, Brokers & Valuers
Registration to ISO 9001

Newsletter

Turner Drake & Partners Ltd.
6182 North Street,
Halifax, N.S.
B3K 1P5
Tel: (902) 429-1811
Toll Free: (800) 567-3033
Fax.: (902) 429-1891
E-Mail: tdp@turnerdrake.com
Internet: www.turnerdrake.com

Winter 2002/2003 Vol. 2 No. 73 (ISSN. 1203-1410)

CITIES: AT THE TURN OF THE TIDE

Turner Drake

"Is a city more than its landscape, architecture and population mix? Is there a shared experience of city life, or do the geographical, economic, cultural and social forces that have moulded each city make it distinct? What is the significance of cities within countries? What role do cities play in the national identity?" York University, Culture of Cities Project, 2000.

York University's graduate project draws on the resources of researchers at eight Canadian universities (Calgary, Concordia, McGill, Memorial, Quebec, Waterloo, York) and ten overseas colleges located in six countries (Australia, Belgium, England, France, Germany, Ireland). It expects to produce detailed studies of the urban experience in Montreal, Toronto, Berlin and Dublin. The team deliberately selected these cities rather than primary global cities such as New York, London or Tokyo *"based on the expectation that in Montreal, Toronto, Berlin and Dublin, the ambiguity of heritage and identity typical of any city, is acutely endangered by their very fragility and aspirations to absorb new influences"*. Oh right, and that's the very reason that we have chosen to focus on Halifax, Moncton, Charlottetown, St. John's et al … and the fact that our credit card has not yet clocked up the necessary air miles to get us any farther. We thought too, it would be useful to determine what role Atlantic Canadian cities play in this region's identity. Of course it would help if those bright academics could pull their fingers out of their hockey gear, lederhausen or Guinness and produce a framework we could adapt to our project, but they haven't done so yet: time and tide wait for no man, so we'll have to improvise. Focus: we are about to construct the theoretical framework for our project.

IN THIS ISSUE

Objective

We intend to measure the current and future importance of each city to the Atlantic Region as a whole. The importance of the central business district to the identity of a city is a function of city size, but even global cities such as New York owe much of their image to their downtown skyline, as the tragic loss of the World Trade Centre twin towers has recently and traumatically demonstrated. The C.B.D. anchors the identity of its city, and the city

(Continued on page 2)

(Continued from page 1)

fulfills the same function for the region. In analysing the importance of each city to the Atlantic Region, we intend therefore to use its C.B.D. as our main point of departure.

Central Business District

Our cities are small; without a vibrant downtown they are like an apple with a rotten core; initially promising, ultimately disappointing … a fact little appreciated by politicians or bureaucrats alike who take the continued existence of the Central Business Districts for granted, usually treating them with indifference, condescension or even hostility. They are after all, rarely an important source of votes. Unfortunately CBDs are fragile, many have died, several are on the cusp. Yet they are the prime source of the municipality's tax revenue, its treasure chest of heritage buildings, and the repository of the city's soul. They define the community and usually contain at least one signature building or lifestyle statement which "brands" it. Our lead photograph for example, is immediately recognisable; a city with a unique identity. The evocative sight of doreys bobbing on the waves instantly brands it: indeed the Newfoundland habit of "jigging for cod off the banks" has passed into the national lexicon. You don't have to be from Toronto to recognise St. John's.

Turner Drake

Many central business districts in Atlantic Canada date back to the mid 1700s. The original wooden buildings were replaced in the early 1800s by masonry structures. Some of these elegant buildings still remain. There was another burst of construction in the late 1800s, early 1900s. This was a period of prosperity for small towns in the region such as North Sydney, Nova Scotia; their land values peaked. *They have never recovered.* Their CBDs lingered on until the 1970s, when they were dealt a further, usually fatal blow, by the construction of Community Shopping Centres on greenfield sites situated on the town's periphery.

The region's larger towns and cities were more fortunate because their central business districts were less reliant on retail trade for survival. Most are located a waterway, the most efficient method of transportation in the eighteenth century. During the period 1900 to 1960 the introduction of public transport encouraged the development of prime retail including department stores such as Eatons, together with some office and multi-storey manufacturing. The latter were forced out by high rise office development during the 1960s and 1970s. In the late 1960s, early 1970s, high rise complexes containing multi-level retail, high rise office and apartments were built in some CBDs, usually with government encouragement. The retail component had a short life however, and within fifteen years was in sharp decline, unable to compete in the 1980s with Regional Shopping Centres and, during the 1990s, with Power Centres, erected on greenfield sites … sometimes with financial assistance from the municipality! This bizarre behaviour whereby the municipality provides assistance for downtown development and then ensures its demise by funding competing projects, aptly illustrates the ambivalence inherent in government attitudes to the CBD.

During the 1990s the changing demographic resulted in an increase in older empty nesters and they started to relocate downtown into new high rise condominium and apartment buildings. This is a more affluent generation of retirees and their numbers are surging as the baby boomers enter the demographic. They seek more restaurants, coffee shops and leisure facilities. During the 1980s and 1990s the downtown areas experienced an increase in restaurants, coffee shops, casinos (Halifax), live theatre, exercise clubs and convention space. This stimulated new hotel construction. The central business districts are now presented with an interesting opportunity. We will review how the various cities in Atlantic Canada are positioned to take advantage of it, in future issues of Newsletter.

*For more information on York University's Culture of Cities Project visit their web site **www.yorku.ca/culture_of_cities/**.*

PROPERTY TAX DIVISION

Nova Scotia—Spring Sale

Chain Lake Drive, Halifax
($70,000 in Tax Savings)

Service Nova Scotia a.k.a. the Provincial Assessment Department, launched its annual tax reduction event on January 13th. During the subsequent 21 days they invite owners and occupiers of property in the province to appeal their Realty and Business Occupancy assessments. Unless you are a masochist, it is an invitation you should not ignore. *(If your property is enrolled in our PAMS™ Property Tax Manager program relax, we have matters well in hand. We have already reviewed your assessment and will file an appeal if it is over-assessed).* If your property is not PAMS™ protected and masochism is rarely your forte, pay attention, your financial health is at risk. You have until February 3rd to get your appeal into the Assessor's hand (out of province taxpayers have an additional 10 days grace if they so apply). Decide whether you have valid grounds for appeal. The basis for your Realty Assessment is the market value of your property on January 1st 2001, having regard to its physcial state of repair on December 1st 2002 … *and the General Level of Assessment.* The latter, identified in the Assessment Act as the "uniformity" provision, is probably the more critical of the two tests you need to apply. For the first test determine if the Realty Assessment is **greater than** the property's market value

(Continued on page 3)

(Continued from page 2)
on January 1st 2001: if so, appeal ... you are over-assessed.

If your property survives the market value test, you may still be over-assessed. Under the "uniformity" provision of the Assessment Act, all assessments have to be calculated so that they fall in a uniform manner across all properties, in the same category, in the municipality. This "General Level of Assessment" is calculated by dividing the sum of the 2003 assessments, for those properties that have sold around January 1st 2001, by the aggregate of their sale prices. If the General Level of Assessment is 0.70, then all properties whose assessment exceeds 70% of market value at January 1st 2001, are over-assessed. Service Nova Scotia insists the General Level of Assessment is close to 1.0 ***... there is no reason to believe that this is correct,*** indeed the only consistent factor with assessments is their inconsistency. Consider the following two random samples of office building sales in Halifax CBD:

Sale Price	2003 Assessment	Assessment/ Sale Price Ratio
Small Office Buildings (< 5,000 ft.²)		
$ 250,000	$ 103,700	0.41
$ 285,000	$ 275,600	0.97
$ 293,625	$ 295,900	1.01
$ 385,000	$ 334,400	0.87
$ 385,000	$ 287,600	0.75
$ 415,000	$ 421,300	1.02
$ 420,000	$ 398,900	0.95
$ 450,000	$ 338,900	0.75
$ 475,000	$ 420,600	0.89
$ 3,358,625	$ 2,876,900	0.86
Large Office Buildings (> 100,000 ft.²)		
$ 7,400,000	$ 7,029,500	0.95
$ 9,050,000	$ 6,864,400	0.76
$ 11,500,000	$ 6,271,600	0/55
$ 12,130,000	$ 7,482,200	0.62
$ 12,400,000	$ 10,000,100	0.81
$ 14,800,000	$ 10,449,500	0.71
$ 25,000,000	$ 19,392,300	0.78
$ 84,103,298	$ 70,229,300	0.84
$176,383,298	$137,718,900	0.78
All Office Buildings		
$179,741,923	$140,595,800	0.78

If you own a small office building (< 5,000 ft.²) there is a high probability that you will be assessed at market value, as required by the Assessment Act. However you will be treated very differently if your property is a large office building (> 100,000 ft.²): there is then virtually no chance that you will be so assessed. The aggregate level of assessment for office buildings is 0.78 so if your assessment is greater than 78% of the property's market value (at the January 1st 2001 base date) you have the comfort of knowing that you are subsidising your competitors ... and if you own a small building you will be paying taxes which should be borne by your building's larger brethren.

If you are in doubt whether to appeal, Tom Mills or Giselle Kakamousias of our Property Tax Division are available to assist you at 1-800-567-3033 (429-1811 in HRM). If you decide to appeal, we recommend that you utilise the following wording as your grounds for appeal: *"The Assessment is excessive, unfair, not uniform with other assessments, and any other grounds that may appear".*

New Brunswick—Savings to Bank

Charlotte Street, Saint John
($72,000/annum—31% in Tax Savings)

Service New Brunswick expect to mail out the year 2003 assessment notices on March 1st. You will have 30 days thereafter in which to file your appeal. *(If your property is enrolled in our PAMS™ Property Tax Manager program we will review the assessment and file an appeal where necessary. You can verify if your property is so blessed by checking your Client Area on our web site **www.turnerdrake.com**).* If your property is not PAMS™ protected you can still expect to receive assistance from our Property Tax Division. They will mail you a set of decision rules early in March to help determine whether your property is over-assessed. Our New Brunswick tax team, André Pouliot and Rick Escott will also be available to answer your telephone enquiries at 1-800-567-3033.

VALUATION DIVISION

No Act of God

Turner Drake

The Atlantic Region has lost a number of priceless architectural gems over recent years to arsonists. Saint George, the "round church" located in the City of Halifax's north end, rose phoenix like from its ashes thanks to tremendous community involvement. Efforts are also underway to rebuild St. John's Anglican Church, also a heritage building and a National Historic Site, in Mahone Bay, Nova Scotia. This eighteenth century masterpiece with its unique hammer beam ceiling was almost completely destroyed. The perpetrators of that crime have not yet been caught. The City of Halifax's south end was under attack last year from arsonists: understandably people were nervous, and any delay in garbage pick-up from commercial premises promoted angry phone calls from anxious neighbours.

Atlantic Canada has a wealth of wood frame buildings, many built sixty to a hundred years ago and joined together in terraces. A fire in one building often spreads throughout the entire block. One entire side of Smith Street, in Halifax's south end, was destroyed a few years ago as the fire travelled through the attic spaces of each historic building. Last year a fire in one old building on Birmingham Street threatened the entire block of wood frame structures occupied by boutique shops. Thanks to some sterling work by the municipal fire department the fire was contained and only two buildings were damaged. Unfortunately the situation is not helped by the municipality which, in a contrary

(Continued on page 4)

(Continued from page 3)
and counter intuitive move has introduced a policy of fines for false alarms … and thus discourages the use of monitoring systems. (During a meeting with us, municipal officials suggested that in the event of a fire alarm, we first attend the property and verify it was on fire before placing an alarm call!).

Insurance companies are nervous. Rising claims, the events of September 11th and a dismal stock market are causing them to raise fire insurance rates substantially, limit their coverage, or both ... or to refuse coverage altogether. When your insurance falls due you can expect any, or all of the foregoing. Insurers are underwriting risk on a property by property basis. Churches in particular appear to be hard hit and it is not unusual for rates to triple, and for the insurer to refuse to renew the policy unless they are provided with a current fire insurance appraisal. As a result our Valuation Division (church goers all, well almost all) has developed considerable expertise in the field. In addition to verifying costs generated by our computer system with actual, local building costs, they have also sourced them for accoutrements such as bells, organs, pews and stained glass.

In some cases the insurer will limit their exposure by writing the policy on an *Actual Cash Value* basis, rather then *Replacement Cost New*. The latter is defined as "the cost of replacing, repairing, constructing, or re-constructing (whichever is the least) the property on the same site with a new property of like quality and for like occupancy without deduction for depreciation; 'replacement' includes repair, construction or re-construction with new property of like kind and quality". Insurance companies typically *exclude G.S.T./H.S.T.* from their Replacement Cost New calculation unless the property is a residential building, in which case they *include* it. The governing principle presumably is that you can "flow through" your G.S.T./ H.S.T. costs in most cases, but not for residential properties. Since the "flow through provision" varies with the tax status of the owner (e.g. church and church hall owners are usually partially exempt) the G.S.T./ H.S.T. costs should be addressed when the property is appraised for fire insurance. Insurers typically refuse to renew the policy unless they have a fire insurance appraisal on file, undertaken within the last five years.

Actual Cash Value (ACV) is defined as "Replacement Cost New (RCN) less depreciation". Unfortunately there are three types of depreciation: physical, functional and external (economic). Tying down a precise definition of ACV is rather like nailing jelly to a wall. Court decisions are less than lucid in their interpretation of "depreciation" and their definition of Actual Cash Value varies between "Market Value" (RCN less all three types of depreciation) and "Replacement Cost New less Physical Depreciation". In the event of a claim, expect your insurer to plumb for the Market Value definition, and to settle your claim somewhere on the continuum between it and the RCN less Physical Depreciation value. You can reduce your risk by ensuring that your building is professionally valued on the basis of Replacement Cost New *when you place your insurance.* It is then unlikely that the Courts will view sympathetically your insurance company's argument that your loss should be based on Market Value.

Co-insurance

The co-insurance clause in a policy is designed to discourage property owners from under-insuring their premises. Only 2% of fires result in a total loss, so it would be possible to underinsure a property, knowing full well that there was little chance of a loss in excess of the insured value, were it not for the "co-insurance' clause. In effect you bear part of the risk if you are underinsured, even when you suffer only a partial loss. For example, if your property has a replacement cost of \$1.0 million, but is only insured for \$0.7 million, the total amount paid out by your insurance company on a policy with an 80% co-insurance clause, assuming a \$0.5 million loss, would be as follows:

$$\frac{\$700{,}000}{80\% \times \$1{,}000{,}000} \times \$500{,}000 = \$437{,}500$$

A point worth getting fired up about in these uncertain times …

For more information on Fire Insurance visit our web site ***www.turnerdrake.com*** *and follow the links (corporate site → products → counselling → fire insurance).*

INTERNET
Trying Harder!

God

(Continued on page 5)

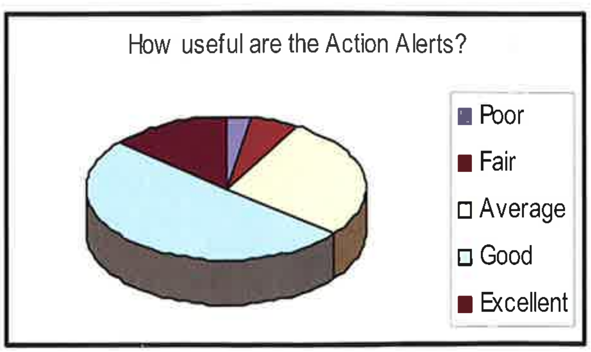
(Continued from page 4)

"In 1992, Germans used 170 million condoms, Britons used 160 million. The French used 100 million. We can catch up, but we must go faster". Philippe Douste-Blazy, France's Health Minister."

… And so must we! The results are in … only 66% of clients rate the Client Area on our web site as "good" or "excellent"; 22% thought it "average", 9% rated it as "fair" and 3% regard it as "poor". Oh dear, we have to do better … and we will. We have contracted with Concertia Technologies to make your Client Area more useful (we hope). The upgrade will make it easier for you to track the progress of each job by providing a visual indicator showing when each stage of the work is complete. It also gives you access to job specific resource material such as the contract (all jobs), Letter of Authorization (Property Tax jobs) and plans (Lasercad™ work). The upgrade should be complete by the time you receive this Newsletter. Try it and tell us what you think (mturner@turnerdrake.com). Our web site address is **www.turnerdrake.com**. If you have misplaced User ID and Password, no matter, the entry screen will recover them for you if you **Click Here for Assistance**. (not *here*, on our web site).

Your Client Area is a great way to monitor job progress. It allows you to monitor several jobs even when they are being undertaken by *different personnel in our company* … or have been commissioned by *different members of your staff.* It puts your staff member in direct contact with the Lead Consultant on each active assignment. You and your staff can provide input, receive feedback, and monitor progress on each active assignment. Once the job is complete, a record is archived on your Client Area so you can easily check, for example, the last time you had your property appraised, and its value. You can also order jobs online, anytime. In fact we have structured our 2003 Lasercad™ space measurement fees to provide a $25 discount for jobs ordered through your Client Area.

ACTION ALERT!



Action Alert! is a free service provided by Turner Drake & Partners Ltd. (us) to decision makers with property portfolios in Atlantic Canada and Ontario (you). Even if your portfolio comprises a single property, you will benefit because it provides you with information on time sensitive issues which impact your bottom line. Action Alert! bulletins are generated through your Client Area on our web site, so you may not be getting them because we did not initiate this database until April 1st 2001. (We are partial to launching new services on April Fool's Day: it gives us an "out" if they are not successful). If you wish to be "appended", say so by emailing us at tdp@turnerdrake.com. Action Alert! bulletins contain information, some of it not easily available elsewhere, all of it relevant. Properly utilised they will save you money. Since September 2001 the twenty four Action Alert! communiqués have provided insight into the shenanigans of the various Assessment Departments, the taxing ways of Canada Customs and Revenue Agency (G.S.T./H.S.T.), the risky business of fire insurance, and have provided mind expanding facts on space measurement. They are issued whenever we have something useful to report (usually once or twice a month) and are delivered by email in PDF format.

How useful are they? Until recently we had to rely on anecdotal data: recipients rarely cancelled the service and when they phoned they were not abusive. However, we now have hard data from a recent client survey. 59% of recipients read them (or part thereof); 13% of the readers rate them as "excellent", 53% as "good", 26% as "average", 5% as "fair" and 3% as "poor". Applying "the glass is half full/empty" philosophy; these results show that 92% of readers do not regard them as a nuisance … presumably the remaining 8% continue to get the service in the hope that one day we will reveal the location of the Holy Grail (hang in there, we are working on it). We are encouraged: email can be something of a nuisance and we wondered if the service was worthwhile. We will continue.

Action Alerts! are archived on your Client Area at our web site **www.turnerdrake.com**. If you do not have an Action Alert! tab, email us at tdp@turnerdrake.com and we will initiate it.

EGG HEAD

André Pouliot, B.Comm., Eg. Hd.

(Continued on page 6)

(Continued from page 5)

Since we adopted the University of British Columbia's Urban Land Economics program as part of our training requirement ten years ago, our consulting staff have taken top marks countrywide in the various courses. André, the most recent winner of our Egghead award scored the highest mark countrywide in UBC's Case Studies in Appraisal course. André is a previous Egghead winner, albeit mildly eclectic in matters of dress. Well done guy!

UBC has recently expanded its Urban Land Economics diploma program into a Bachelor of Business in Real Estate degree. The three members of our staff who had completed the Diploma program have now enrolled in the remaining courses for the Real Estate degree. Great effort guys!

COUNSELLING DIVISION

Waiting to Collect the G.S.T.?

Turner Drake

Sales of virtually all types of real estate are subject to G.S.T. ... except in New Brunswick, Newfoundland and Nova Scotia where H.S.T. is levied instead, at a rate of 15% instead of the 7% mandated for G.S.T. The main exception is "used" residential property, i.e. apartment buildings; detached, semi-detached and row housing; residential condominiums and apartments; suites in a hotel, motel, inn, boarding or lodging house, or student residence, (so long as they are not rented for continuous periods of less than 60 days); retirement and nursing homes; mobile and floating homes.

The sale or lease of a used residential trailer park will be exempt provided that the owner did not claim an input tax credit in respect of their prior acquisition of the park or additions to it. So . . . if you build an apartment building or residential trailer park, beware: G.S.T./ H.S.T. will be levied on its fair market value when the first unit is occupied . . . the entire apartment building or completed phase of the trailer park, *not just the unit leased or sold!* So be careful, whenever possible construct your development in phases. Complete all construction work *before* the first unit is occupied because any work completed thereafter will not be eligible for G.S.T./ H.S.T. input tax credits. When your new apartment building or trailer park is first occupied you are required to report the happy fact to Canada Customs and Revenue Agency (CCRA). This will trigger a notional sale of the complex from yourself to yourself for the purposes of G.S.T./H.S.T., at "Fair Market Value". You are required to compute (self assess) this Fair Market Value and fork over the requisite G.S.T./H.S.T. to CCRA.

Quo Vadis Fair Market Value?

The "first occupied date" is crucial because it determines the physical, fiscal, legal and market conditions which have to be considered in arriving at the fair market value. It is not uncommon, in the case of new apartment buildings or a trailer park, for the builder to "accommodate" an individual tenant by allowing them to move in before construction is complete. However since this will trigger G.S.T./H.S.T. liability on the entire complex, and terminate tax inputs on the remaining construction work, it can have catastrophic financial consequences ... particularly if you do not have your long term financing in place.

What constitutes "fair Market Value"? As always, the devil is in the details. Canada Customs and Revenue Agency's (CCRA) appraisers have interpreted "fair Market Value" as "Market Value": the price the property would bring on the open market assuming a willing buyer and a willing seller . . . and assuming that the property is leased, with an established market presence, stable cash flow and operating history. The Tax Court of Canada demurs. There have been a number of cases on this very matter: one recently sent to us, *"Sira Enterprises Ltd. and Her Majesty the Queen 98-2463 (GST) G"*, makes interesting reading. Potentially there are several methods for calculating Market Value: colloquially known as the "three approaches to value": they comprise the Cost, Income and Direct Comparison approaches. There are numerous variants of each but Market Value is always established through one or more of these approaches. The Sira Enterprises case concerned six apartment buildings totalling 136 units, located on Mapleton Road and Fairlane Drive, Moncton, New Brunswick. The buildings were constructed by A.V. Construction Ltd., and were completed in 1995. A.V. Construction and Sira Enterprises were related companies. Sira Enterprises self assessed itself for G.S.T. and based their calculations on their actual construction costs, plus the land . . . effectively the Cost Approach, albeit slightly weighted in their favour because their related company did the work at marginally less cost than they would have charged a third party. CCRA's "in house" appraiser used the Income and Direct Comparison approaches to compute the fair Market Value. The Income Approach treats properties as an investment and converts the net income stream into a capital value by dividing it by an interest rate. The Direct Comparison Approach compares properties on a sale price per apartment basis. The Tax Court did not reject any of the approaches to value but accepted the taxpayer's Cost Approach (increased to reflect "normal" contractor's profit) because in their words *"The Court's duty is to determine the fair market value of the properties for the purpose of the G.S.T. The Court is not interested in the fair market value of these properties for the purpose of sale and indeed there might be many factors which might have to be considered if the Court were required to determine the fair market value for the purpose of sale, which may not be relevant for G.S.T. purposes".*

For more information on Tax Court of Canada decisions visit their web site at ***decision.tcc-cci.gc.ca/en/index.html***.