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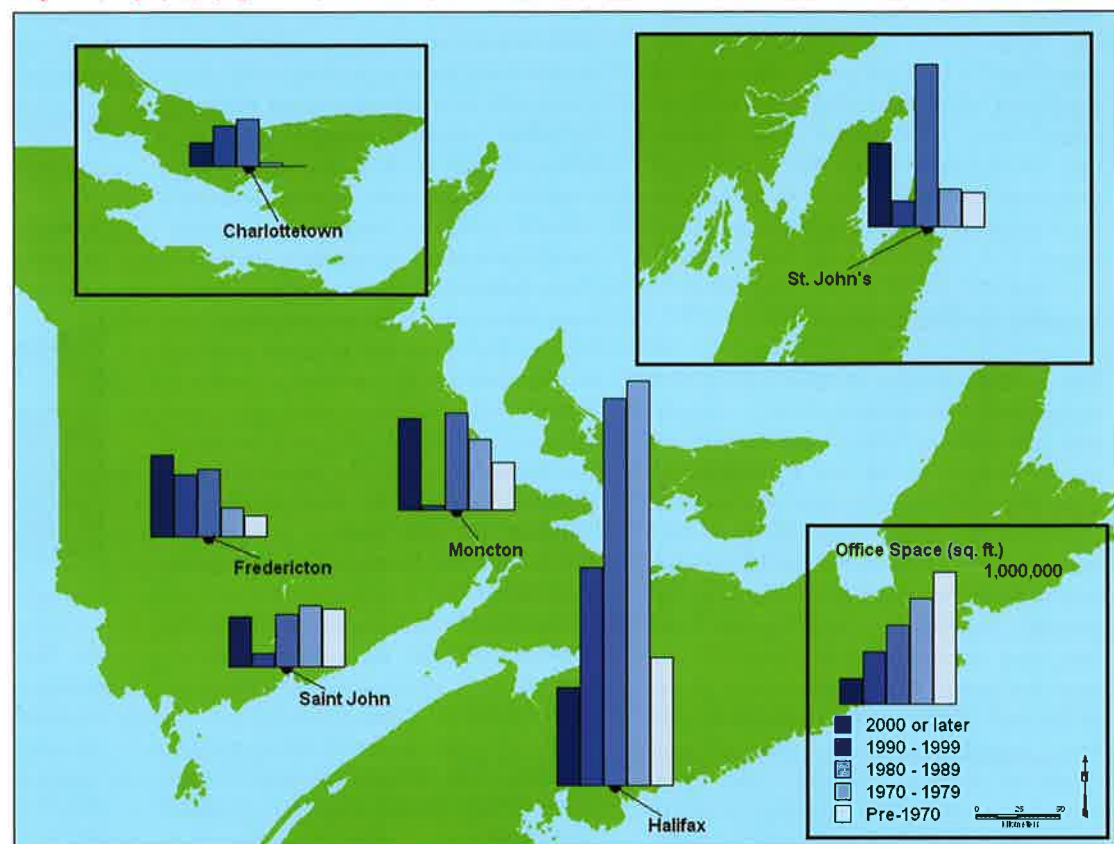
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OCEANS OF OPPORTUNITY



Or Temples to a Dying Deity?

On July 15th we completed the most comprehensive study ever undertaken of the Atlantic Region's office and industrial real estate markets. The study was conducted by our Counselling Division's Economic Intelligence Unit. Over a five month period, our ten person team of researchers, data entry staff and a programmer, surveyed 30 million square feet, spread over 606 buildings, located in six urban agglomerations (Moncton, Saint John, Fredericton, Charlottetown, Halifax, St. John's). They had great support from the real estate community and were able to capture information on the building sizes, occupancy levels, rental and operating expenses, for virtually every building surveyed in the Maritime Provinces, and 86% of those in St. John's, Newfoundland. (We are still working on the hold-outs in St. John's and have now hired very tall, muscular and mean

researchers ... and when we say "mean" we mean, *mean*. So wait for that call and say 'sir' dammit). If you participated willingly in any of the twelve surveys we will be pleased to send you a copy of the raw data in .pdf format, by email. For Prince Edward Island and New Brunswick, contact Nigel Turner (nigelturner@turnerdrake.com). For Nova Scotia and Newfoundland, email Michael Lim (mlim@turnerdrake.com).

Public Works & Government Services Canada (PWGSC) commissioned the market survey to assist their leasing officers. They provided us with data from similar surveys, on a much smaller population of buildings, undertaken during the past five years. Some of these surveys were on a six month cycle, the remainder were conducted annually. In order to combat the missing data and missing surveys, we developed heuristic algorithms which allow us to create a time series based on a consistent twelve month cycle. The algorithms (1) compensate for the missing data, and (2) ensure that the historical data will improve with the subsequent market surveys we are to conduct as part of an ongoing program.

In order to best utilise the information from the
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market surveys, we designed, built and populated an intelligent, geocoded database. This Market Survey Database has now been integrated into our proprietary Compuval™ family of intelligent databases (they chat to each other; really!). Together they provide our Valuation and Property Tax consultants with an unsurpassed knowledge of the property markets in the region.

Reading the Tea Leaves

Part of our mandate in undertaking the assignment, was to project future supply and demand for office and warehouse space in each of the six communities. This exercise required that we analyse economic conditions over the past five years and the response of the office and industrial markets to them, take stock of current conditions, and utilise the foregoing data to project ahead for the next five years. This analysis took place in the face of two events which have, and may, forever change the face of real estate in Atlantic Canada: the 1990 recession, and the escalating outward migration of population to more friendly economic environments such as Alberta.

Offices

The 1990 recession hit real estate markets east of the Rockies, hard. It also resulted in a systemic shift in the way business was to operate; flash was out, function was in! For offices, this meant that accessibility and flexibility assumed as great, or greater, importance as prestige and a presence in a Central Business District (CBD). The growth of broadband Internet and mobile phone use during the 1990s gave workers greater mobility. An accessible location with free on-site parking often outweighed the advantage of a downtown location. Shareholder concerns about lavish office space, which had surfaced during the recession, resulted in a more Calvinistic attitude: firms that had sought prestige office space now preferred something less ostentatious, and the rental premium captured by this type of space melted away. The more vigorous economic environment engendered by the recession, and the improvement in, and lower cost of, communications spawned outsourcing and the relegation of “back

office functions” to call centres. The latter were better located in business parks because of lower land and construction costs, the availability of ample free on-site parking, and their proximity to residential areas favoured by their usually younger and less affluent staff. In 2005, the rapid rise in energy costs once again focussed tenants’ minds on conservation; “green” buildings started to rise in prominence (Newsletter Vol. 2 No. 82). Design requirements now favour unostentatious lobbies and a secure, pleasant working environment with sprinkler systems, natural light, windows that open, and energy efficient climate control mechanisms such as heat pumps. Broadly speaking, the older the building, the less likely it is to reflect the design and locational requirements desired in today’s business environment. Buildings erected prior to 1990 in particular, are unlikely to do so. Our surveys uncovered the following age ranking of office stock, by size, in each of the communities polled, together with the current vacancy rate and average annual change in demand since 2001:

Urban Area	Date Built		Average Annual change in Demand (2001 to 2006)	Current Vacancy
	≥ 1990	≥ 1980		
Greater Charlottetown	55%	95%	- 1.80%	7.50%
Greater Fredericton	55%	81%	- 0.99%	4.97%
Greater Moncton	40%	67%	- 2.15%	12.84%
Greater St. John’s	32%	79%	1.38%	6.04%
Greater Saint John	27%	50%	- 1.09%	10.96%
Greater Halifax	26%	57%	0.07%	6.53%

Source: Turner Drake & Partners Ltd.
Field Survey May to July 2006.

(To be continued in the next issue of Newsletter ...).

For information on our Counselling Division visit our web site at www.turnerdrake.com and follow the links (corporate site → products → counselling → market surveys).

PROPERTY TAX DIVISION

Nova Scotia: Negotiate Now!



Bedford Highway, Bedford, N.S.
(\$16,000/annum - 31% in tax savings)

On June 19th., Service Nova Scotia published their proposed Year 2007 assessments for all properties in the province. This policy of publishing a “pre-roll” was initiated seven years ago following a meeting between the then Minister and Deputy Minister responsible for property assessment, our company president and senior members of our Property Tax Division. Ministers and Deputy Ministers have changed since then but the process has continued because it affords Service Nova Scotia the opportunity to iron out problems before the official assessment roll is published in January ... at which point the municipalities rely on it to set their budgets. This is key: once the official assessment roll is published in January 2007, the municipalities will base their tax rate on it and be understandably concerned if the Provincial Assessor agrees to reduce assessments at that time. As a consequence the latter will be reluctant to do so and will leave the matter to be decided by the Regional Assessment Appeal Court: a more expensive, arbitrary and risky course of action for the property owner. The problem was compounded during the appeal period earlier this year by the fact that Service Nova Scotia were attempting to launch a new computer system and twenty five of their most senior staff were so engaged ... leaving very few commercial assessors to handle the appeals. As a result most of the cases

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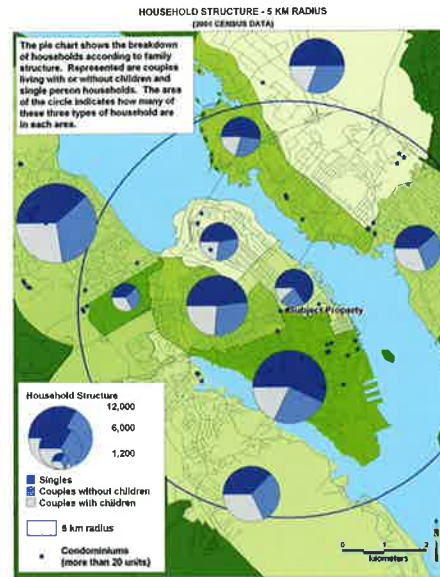
were sent to Court instead. The opportunity to negotiate assessments in advance is a rare exercise in common sense ... a concept normally foreign to Service Nova Scotia. However, they will insist, with some merit, that since they are prepared to negotiate the pre-roll now, it should be unnecessary to leave matters until the official Appeal Period in January. Indeed they will cite the taxpayer's inaction, following the publication of the pre-roll in June, as evidence that their assessment is correct, during any subsequent Appeal Court hearing next year!

There is a further, very important reason why you should take advantage of this opportunity to negotiate your 2007 assessment now, rather than wait for the official appeal period next year. If you own a rental property such as an apartment building, shopping centre, offices, etc., or a motel, you will have no right to appeal your assessment next year unless SNS' Income and Expense Questionnaire was returned, fully completed, within the 30 day deadline in 2005. It matters not whether you owned the property in 2005: the completed questionnaire must have been filed within the thirty day period. If your property was enrolled in our PAMSTTM Property Tax Manager program we would have ensured that it was compliant. If it was not ... chances are, you did not bother. However we have been successful in negotiating with the Provincial Assessor during the "pre-roll" period even on properties which were not Questionnaire compliant. There is a very limited window of opportunity: the assessment pre-roll closes on December 1st and most of Service Nova Scotia's senior staff are still puzzling out which buttons to press on their new computer system ... leaving very few available to do any work.

If you are less than thrilled with your proposed 2007 assessment, call either member of our Nova Scotia Tax Team, Giselle Kakamousias or Mark Turner, toll free at 1-800-567-3033 (429-1811 in HRM).

☎ For more information on Property Tax visit our web site at www.turnerdrake.com and follow the links (products → property tax).

COUNSELLING DIVISION



Condominiums: Cornucopia or Collapse?

Are condominiums cornucopia for aging baby boomers, free now of their kids, seeking that "freedom 55" release from gardening and snow shovelling? It is tempting to believe that they are the perfect instrument for our time: a housing form attuned to an aging population. Well, not quite! Condominiums actually date back to the ancient Hebrews, almost 2,500 years' ago. (You can check it out; Papyrus #4,721,891 records the condominium apartment description, its boundaries and rights of sale. Even title insurance is included). In fact we've already been through this before in Atlantic Canada: in the 1980s condominiums were accorded the adulation befitting the Second Coming. Alas, those expectations were wrecked on the rocks of the 1990 recession: prices plunged.

The Wharton Business School refers to our ability to ignore reality as the "availability heuristic", the ease with which the decision-maker can imagine that the event will occur. In their seminal study on the worldwide property crash (Newsletter Vol. 2 No. 65) which washed ashore here in 1990, Wharton attempted to explain why the banking community suffered from disaster myopia and continued to loan money on real estate long after the signs of an over-heated market should have been apparent. They drew on research into cognitive

psychology to demonstrate that even trained observers favour personal experience to facts when formulating decisions. Unfortunately the experience of 1990 faded fast: real estate has once again been restored to its favoured position in the firmament. Yet the world today is a less stable place than was the case sixteen years ago. The Middle East is aflame with hate, oil prices have soared to new heights, and there is a vast exodus from Atlantic Canada to larger, more open economies affording greater opportunity. These are changing times and new techniques are required the better to interpret the marketplace. Rather than rely solely on the experience of recent developments to predict the financial feasibility of a proposed condominium project, we believe that it is necessary to pro-actively analyse demographic and psychographic trends to predict future demand.

So we have built a better mousetrap. Our Counselling Division has re-examined the methodology we traditionally employ in our Supply and Demand Studies. That methodology relies heavily on recent market evidence of market absorption as indicated by the success, or otherwise, of newly completed condominium apartment projects. It is a very pragmatic approach, but it does rely on the past replicating itself in the future. We have expanded that methodology to incorporate fiscal, demographic and psychographic trend data with the objective of creating a better predictive model.

We have focused first on the Halifax Regional Municipality (HRM) because it is a data rich environment. Our Pres. Mike Turner's MBA thesis "Condominium Development in an Urban Core" extensively surveyed Halifax Peninsula condominium apartment buyers on their purchase criteria. In addition, our CompuvalTM Residential Database contains 118,000 sales transactions in HRM, 7,000 of which are condominium apartments. We capture 31 property specific characteristics about each transaction, most of which are numeric, thus allowing us to employ data mining using SPSS software. We finished geocoding this database last week. In addition our Economic intelligence Unit has built a database which captures the characteristics of each condominium

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apartment project e.g. apartment mix and size, sellout time, original unit pricing, together with project amenities such as exercise rooms, swimming pools, views, etc. that Mike's survey disclosed as featuring in the apartment purchase decision. This Supply and Demand Database has been geocoded so we can match each of the condominium projects with the StatCan databases containing *fiscal, demographic and psychographic* data ... and with our Compuval™ Residential Database which contains the *apartment unit* data.

Measuring supply is a factual exercise: it is the aggregate of the existing inventory, and the additions thereto which are in the pipeline. Our Supply and Demand database contains an inventory of existing projects. The principal challenge in determining whether a new project will succeed or fail lies in accurately measuring demand. We can now measure demand from two perspectives, (1) the experience of recently completed projects and, (2) the underlying demographic, income and psychographic forces which drive the condominium apartment purchase decision.

For more information on our Counselling Division visit our web site at www.turnerdrake.com and follow the links (products → counselling → market surveys).

GOING GREEN

(Continued from previous Newsletter)



Upper River Valley Hospital, Waterville, N.B.

LEED Certification

The LEED Standard for New Buildings does not just focus on the building's operating efficiency: it employs a holistic approach which considers the location of the site, re-use of building materials, site remediation, public transportation, site development, light and heat pollution, use of environmentally friendly construction materials ... as well as the operating efficiency of the building itself. *The fundamental principle behind LEED Certification is the necessity to minimise the environmental impact of the new construction across the entire time spectrum; past, present and future.* The Standard employs a points

system; the higher the number of points the development can capture, the higher the Standard, viz.:

Standard	Points Required	
	USA	Canada
Certified	26-32	26-32
Silver	33-38	33-38
Gold	39-51	39-51
Platinum	52-69	52-70

Points are awarded at each stage of the site selection, site, and building development process. For example, one point is awarded if the site avoids the re-use of prime farmland, floodplains, endangered species habitat, wetlands or parkland. It encourages development of two storeys or higher, located in urban areas with access to public transportation, especially if the site is contaminated (brownfield) and will be remediated. Similarly, anything which discourages the use of automobiles by placing emphasis on walking or cycling, garners brownie points. For example, choosing a site which is proximate to facilities such as a bank, drycleaner, medical/dental, park, post office, supermarket ... even a fire station, is rewarded as is the provision of a secure bike rack and facilities for low-emitting or fuel efficient vehicles, on site. Automobile use is discouraged too by limiting the amount of parking: something that runs contrary to the efforts of most municipalities in Atlantic Canada; they currently subsidise parking in their downtown areas and encourage greenfield development with large parking areas on the periphery of their urban areas sometimes giving the land away in a desperate attempt to snatch realty tax revenue from "competing" municipalities or additionally, as in the case of Halifax's Bayers Lake Retail Park, to salvage an ill advised investment in what was supposed to be an industrial park. On greenfield sites, LEED Certification is directed to conserving natural areas and restoring damaged areas to provide habitat and promote biodiversity by limiting the building's footprint and encouraging development vertically, rather than horizontally. Site development is directed to proactively promoting biodiversity by providing a high ratio of open space (at least 20% of the lot area) to the development footprint whilst limiting the impact of site run-off through restricting paving, increasing on-site infiltration and re-using storm water for landscape irrigation, toilet and urinal flushing. Once the site has been developed, the focus on storm water run-off continues with the objective of minimising disruption and pollution of adjacent streams and rivers, by capturing 90% of the average annual rainfall on the site and removing 80% of the suspended solids through the use of vegetation, on the roof as well as the site, vegetated swales, avoidance of paved and other impervious surfaces, and rainwater recycling. Impervious non-reflective surfaces such as asphalt

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parking areas and roofs act as "heat islands" and distort the microclimate, thus disrupting human and wildlife habitat. Thus the Standard promotes the use of landscaping to provide shade to 50% of the paved areas, or by placing them below ground or utilizing materials with the ability to reflect solar heat rather than absorb it ... dark colours are out, white is preferred, vegetated roofs are even better.

Flying eastwards at night across America's Midwest into Chicago offers a salutary lesson in light pollution. The aircraft floats on a carpet of light from the communities below. The LEED Standard attempts to minimise light trespass from the site and building by preventing it exiting the windows, promoting non-use outside business hours, and encouraging downward projecting site illumination. Water efficiency is encouraged by the elimination of potable water for landscape irrigation and the use of indigenous plants, as well as the recycling of water for toilets and urinals, together with conservation measures such as low-flow shower heads and flushing toilets, and occupancy sensors. Energy efficiency is a great concern. It is a pre-requisite that all heating, ventilating, air-conditioning, lighting, hot water and renewable energy systems (wind, solar, etc.) are properly calibrated. The Standard requires minimum energy savings of 10.5% and contemplates maximum savings of 42% for a new building, (3.5% to 35% for a renovated structure) compared to a conventional "baseline" building. CFC based refrigerants are not allowed for new buildings and must be phased out in existing structures because they deplete the Earth's ozone layer. On-site renewable energy systems such as solar (for heating, hot water and electricity), wind (electricity), geothermal (heating and cooling), low impact hydro (electricity), biomass and bio-gas strategies, contemplate energy savings of between 2.5% to 12.5%. Since performance will degrade as the equipment ages or is not properly maintained and utilised, the Standard requires on-going measurement of energy use through metering. Purchase of at least 35% of the building's electricity from renewable sources such as grid based power derived from wind farms, solar, hydro, geothermal or biomass is encouraged. The reduction of landfill waste by collecting, sorting and storing recyclables from processes within the building are required by the Standard. (Municipalities within Atlantic Canada have implemented this type of program with some success: Halifax Regional Municipality claims to divert 55% of materials that formerly went to its landfill, into recycling and composting instead, under a program which officially commenced in December 1998).

The LEED Standard promotes building reuse, rather than complete demolition, and awards points based on maintaining the exterior walls, floor and roof structures (75% to 95%) and interior non-structural items (50%) such as interior walls, doors, floor coverings, and

ceiling systems. Recycling materials recovered during the renovation (50% to 75%), reusing materials (5% to 10%) in the project itself, and utilizing materials recycled from elsewhere (10% to 20%) are recognised objectives. They can also make good business sense to an occupier. Outdoorsman Yvon Chouinard (his father was a Quebecer) founded and built Patagonia, Inc. into a \$250 million USD company selling climbing, fishing and outdoor equipment. In addition to pledging 1% of its annual sales to grassroots environmental organisations, Patagonia houses its operations, where possible, in "green" buildings. Its Portland, Oregon store is housed in a 1895 warehouse and provides 8,000 ft.² of spectacular selling space in a building remodelled in 1998 with an estimated 97% reclaimed or recycled material. The Standard also rewards the use of regionally sourced building materials within 800 km of the project site, provided that they comprise at least 10% of the total cost, since this reduces the environmental impact of transportation. In addition building materials drawn from plants with a short growing cycle (≤ 10 years) are encouraged, particularly if they are wood based and are grown in an environmentally responsible, managed forest.

(To be continued in the next issue of *Newsletter* ...).

VALUATION DIVISION

Turning Rocks into Retail



The Shops at Dartmouth Crossing, Dartmouth, N.S.

Almost three centuries ago it furnished masts for the Royal Navy: more recently the land yielded rock for roads; today this King's woodlot is being transformed by modern day alchemist North American Development Group into the premier shopping location in Atlantic Canada.

Cradled in the arms of trunk Highways #118 and #111, this 519 acre site is flanked on its west by the still expanding Burnside/City of Lakes Business Park, the largest and most vibrant industrial facility in the Atlantic Region.

The initial development, Dartmouth Crossing will host

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over 2.0 million square feet of retail space and about 0.5 million square feet of hotel and office use, on 200 acres. Unlike Halifax's Bayers Lake, which was designed as an industrial park and later converted to retail use, Dartmouth Crossing has been designed from scratch to function as a regional shopping centre with four components: a power centre, Lifestyle shopping centre, offices, and services such as an entertainment complex and hotels. Green space, a brook and two small lakes weave through the project's 20 big box and mid sized stores, 40 shops, 15 boutiques, 20 restaurants, 10 service facilities, 2 hotels, theatre complex and 100,000 ft.² of offices. The developers refer to Dartmouth Crossing as a fourth generation open air retail centre: instead of floating in a sea of asphalt, the buildings commune with nature. Well, almost! New to the Atlantic Region too, is the "lifestyle" shopping centre, "The Shops at Dartmouth Crossing". This upscale development of two and four storey buildings face each other across a landscaped car park, part main street, part piazza, in a linear development severed by park land, and connected by a bridge over Grassy Brook. The buildings will have facades dating back to the 1920s to provide architectural interest, and a cosy ambience with sidewalk cafes. The individual stores focus on fashion and lifestyle: the majority of the restaurants are expected to locate in the vicinity of the Grassy Brook. Dartmouth Crossing is linked to Dartmouth's Shubie Park by a pedestrian bridge across Highway #118, and newly created trails provide a link to Frenchmans' Lake, a new soccer field, and Burnside/City of Lakes Business Park. The first big box stores are scheduled to open late 2006: the development is expected to be complete by 2008/9.

The remaining 300 acres of the site is earmarked for future commercial and residential development and will be sold as the project creates demand and value. There are strong linkages to Burnside/City of Lakes Business Park via Commodore Avenue and Wright Avenue. 20 Vic Management Inc., a national company that manages many properties locally, announced in July that they had acquired a site in the Park on Wright Avenue and

were going to erect a 115,000 ft.² commercial building called "The Wright Place" to capitalise on the site's proximity to Dartmouth Crossing.

Our Valuation Division's involvement with Dartmouth Crossing extends back over a year when we provided advice on the land value. Recently we have provided advice on the development as complete.

BROKERAGE DIVISION

Oh Hell. Sell! (Continued from last Newsletter).



Turner Drake

The Challenge

Nestled in the apple orchards of Nova Scotia's Annapolis Valley lies Kentville, the shire town of Kings County. Once a bustling commercial centre serving the Valley's farming communities, Kentville struggles now to preserve its commercial core against competition from shopping centres built on its outskirts, and the presence of Halifax a scant one hour away.

Bill Woodworth, long time resident of the town, and a principal of M.A. Wade Holdings Ltd. is a hands on operator who prides himself on "doing it right". His two office buildings, situated on a prominent corner of Kentville's business district bear testimony to that approach. Badly damaged by fire a few years ago, they had been carefully rebuilt to provide high quality office space of a calibre normally found in a large city. They were occupied by a "big 5" accounting firm, a national stockbroker and a prominent regional firm of lawyers: excellent tenants but each with the financial capacity to choose their location. M.A. Wade Holdings Ltd.'s principals

wished to reduce their workload and wanted to divest themselves of their crown jewels but only if they could get a price which reflected their true worth. Long time clients of ours, M.A. Wade Holdings Ltd. asked if we would market the property for them.

The Approach

We knew that these properties were at the top of their market, a fact reflected in the quality of the space and the stature of the tenants. Unfortunately emerging markets such as Kentville were not yet attractive to national investors such as the REITs. We decided upon a focused approach targeted at regional and local investors domiciled in Halifax and the Annapolis Valley. Calling upon the resources of our Lasercad™ Space Measurement and Valuation Divisions we prepared a comprehensive Master Sales Prospectus designed to highlight the high quality of this investment. Detailed plans, interior photographs and a full description of the building structure, electrical, sprinkler and HVAC systems were prepared, together with pro-forma operating statements and a legal description. Only when the Master Sales Prospectus was complete, did marketing commence. Within two weeks an offer was received from a local investor and a sale was subsequently consummated.

The Outcome

Because of our knowledge of the local market and its players, and the resources we were able to bring to bear to present the property in its true light, we were able to quickly secure an offer which reflected the property's true worth.

Our Brokerage Division is a member of NAI Global, the world's leading managed network of commercial real estate firms. NAI Global's managed network, entrepreneurial structure and best in the class technology helps clients everywhere in the world tap into 3,500 experts in 300 offices across 40 countries.

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