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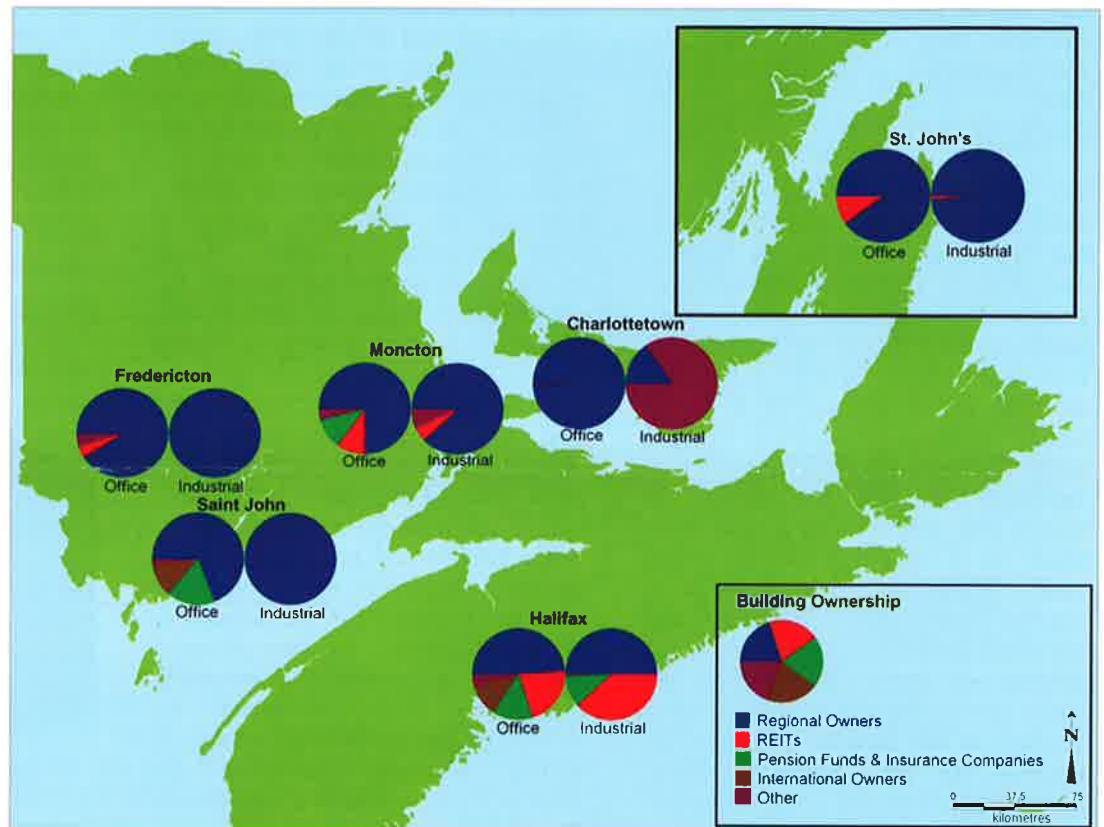
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OCEANS OF OPPORTUNITY (Continued)



Or Temples to a Dying Deity?

Golly, it's a new year again! Years, like capitalisation rates, appear to be compressed. On July 15th 2006 we completed the most comprehensive survey of office and warehouse space ever conducted in Atlantic Canada. The keen young minds in our Economic Intelligence Unit surveyed 30 million square feet, spread over 606 buildings, located in the six major urban centres in the region (Greater Moncton, Greater Saint John, Greater Fredericton, Greater Charlottetown, Greater St. John's, and the urbanised section of the Halifax Regional Municipality). Our contract with Public Works & Government Services Canada (PWGSC) required that we survey premises with a total rental area of 4,500 m² (48,438 ft.²) or more ... probably the same sample set that is included in most

brokerage firm surveys. However it became quickly apparent that much of the rental space outside the Halifax Regional Municipality, is located in buildings below this size threshold so we extended the survey to include rental space in every office building $\geq 10,000$ ft.², and warehouse premises $\geq 20,000$ ft.². Two thirds of the buildings fall within the sub 48,000 ft.² category and their inclusion in the survey reveals a much more accurate, and in many instances a markedly different, picture of the region's rental market. Because the rental inventory in some markets is relatively small, the accuracy of the survey is very dependent on capturing all of the buildings. Fortunately Atlantic Canadians rank amongst the world's most hospitable people and we had a great response, even in St. John's, where enthusiasm for things governmental varies between outright hostility and ... outright hostility. Our second survey, in December 2006, which focussed on office space in Greater Moncton, Saint John, Fredericton, Halifax and St. John's; and warehouse space in Greater Halifax: achieved close to a 100% response in each area, and we were able to add to the inventory of properties surveyed. A big thank you to all participants! The overall vacancy rates for each of the sub-markets surveyed has now been posted to our web site. A synopsis for each of the December

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surveys will be distributed electronically in January 2007. If you participated in the survey our Economic Intelligence Unit will be pleased to forward you an electronic copy of the full survey for your marketplace, in .pdf format. Please email your request to abaird@turnerdrake.com.

Our surveys measure vacancy rates, rental and operating expenses by location and, in the case of offices, by building class (A,B,C). They are a continuation of a series of smaller semi-annual surveys conducted for PWGSC by Cushman & Wakefield LePage. In order to continue the time series, and extend it to the broader inventory of buildings included in our surveys, we developed heuristic algorithms designed to combat the missing data and to create a time series based on a consistent twelve month cycle. These algorithms work on a building specific basis to extrapolate and interpolate inter survey variations. If the building was omitted entirely from the earlier surveys the results from the other buildings in that location, and class, are assigned to the omitted building, provided of course that it formed part of the rental pool in the earlier survey. As we continue to survey the office and warehouse rental stock, the yearly trend results will improve in accuracy because they will be less dependent on values imputed by the algorithms. We will be surveying the entire office and warehouse inventory again in June 2007 and will thus be able to accurately measure the year over year change using the same building stock. Stay tuned!

Ownership

The commercial property market meltdown in 1990 initiated the demise of some local dynasties, exorcised the banks and remaining trust companies from the mortgage market, panicked pension plans and life companies into liquidating their assets, convinced open ended partnerships to slam the door on redemptions, and caused real estate consultants to question their role in life. The situation was exacerbated in Atlantic Canada by the ill advised antics of government agencies such as ACOA and its provincial copy cats who, in the 1980s, exhibiting all the finesse of bulls in a china shop, managed to destabilise markets by encouraging over-building in

sectors identified as needing their "help". Alas some things never change! But local entrepreneurs are a hardy breed, born of adversity, and it was they who, in the mid to late 1990s, stirred the markets back to life. It has been a remarkable and heartening event to witness. As demand picked up the hotel/motel market started to recover in 1995, followed by apartments in 1997, industrials in 1997/1998, offices in 1998 and retail in 1999. Local entrepreneurs were quick to meet the challenge first buying, and then as rents recovered, building new stock. They were joined by a trickle of investors from outside the region. During the past three years that trickle has strengthened to a flood: real estate has again assumed the mantle of the Holy Grail it last wore during the late 1980s. Since investors now hunger for product, we have analysed its ownership in the six urban centres which are included in our rental survey. We have allocated the space into one of five ownership categories: (1) International i.e. investors domiciled outside Canada, (2) REITs, wherever domiciled; (3) Pension Funds, wherever domiciled; (4) Regional Owners i.e. individuals who invest locally, or companies who invest locally and have their Head Office in Atlantic Canada; (5) Other, i.e. anybody but the foregoing, including the non-profits, government and banks. It bears repeating that our survey excludes owner occupied buildings. Category 4 (Regional Owners) potentially present the softest target for investors with deep pockets from outside the Atlantic Region. The result of our research is shown on the map on Page 1.

National and International investors prefer the largest urban market, Halifax, probably assuming that the food is edible, they won't have to share their hotel bed with strangers, the natives do not bite ... and the office and industrial markets have depth. It is true that the smaller markets may be vulnerable to the idiotic antics of the political establishment, and their coterie of civil servants, some of whom favour flash over fact, and as a consequence may fund new construction in the happy anticipation that tenants, and employment, will somehow materialise to fill the empty space. But it is also true that the smaller centres have fewer

landlords, and they are less likely to indulge in the deep discounting of rents that occurred for example, in HRM in the early 1990s.

For a synopsis of the office and warehouse rental surveys mentioned in this article, visit our web site www.turnerdrake.com and follow the links (corporate site → news & research → surveys).

PROPERTY TAX DIVISION

New Brunswick: Beware the Ides of March



Rue Champlain, Dieppe, N.B.
(\$20,000/annum – 18% in tax savings)

Each year, Service New Brunswick (SNB), the provincial assessment authority, re-assesses every property in the province based on its market value on January 1st. It is an exercise which, if carried out properly, ensures that each property shoulders a share of the tax burden, roughly consistent with its ability to pay. That in essence is the guiding principle, and nobody has yet invented a better system. In Nova Scotia, political perfidy has so gutted the principle, the tax burden is borne by those least able to object. Prince Edward Island pretends to re-assess its properties each year but effectively abandoned the process a decade ago; the inequities compound yearly. Kudos then to New Brunswick for making an attempt to practice what the others preach. If you own property in the province, expect to receive your 2007 Assessment Notice in March ... and by happy co-incidence a letter from us containing decision rules to assist you decide whether SNB got it right.

Nova Scotia

In our Very, Very Late Spring 2006 Newsletter (Vol. 2 No. 83) we pointed out that you lost your right of appeal if

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you failed to complete Service Nova Scotia's Income and Expense Questionnaire within the 30 day deadline. The Questionnaire is sent in June, two and a half years prior to the assessment year to which it relates. We mentioned that you lost your right of appeal even if you did not own the property at the time the Questionnaire was issued, unless the prior owner completed it properly within the time limit. This latter advice was absolute and utter nonsense: please write rude letters to our editor and tell him, or her ... or it, what you think of him, her or it. Thank you.

Service Nova Scotia, the provincial assessment authority, will *not* be mailing out its 2007 Assessment Notices on January 16th as has been its habit in years past. The Assessment Notices will instead be mailed on or around February 7th. The basis for your property assessment this year is supposed to be its market value as of January 1st 2005, but having regard to the general level of assessment of other properties in the municipality. The following article on the general level of assessment, and Service Nova Scotia's contortions in calculating it, may be of some assistance ... maybe not!

On The Level: The Sequel



Brunswick Street, Halifax, N.S.
(\$26,902/annum - 8.1% in tax savings)

Our Summer 2005 Newsletter (Vol. 2 No. 80) detailed Service Nova Scotia's sorry attempt to cook the books by selecting only sales information that supported its "general level of assessment", a mathematical adjustment necessary to ensure that all properties are equitably assessed. SNS used the somewhat improbable excuse that purchases by "pension plans" and "REITs" had to be ignored because they were "national" purchasers ... apparently so lacking in sophistication they paid too much for their property: only *local* purchasers were deemed to possess the necessary

business acumen to acquire property at its market value. However, since local purchasers rarely had the financial resources to acquire large investment property, it was left to these foolish fellows domiciled outside the region to do so. The net result of Service Nova Scotia's gymnastics was that properties acquired by local purchasers were assessed at their market value ... whilst properties acquired by more intellectually challenged purchasers from outside Atlantic Canada were under-assessed. Most of the latter were the large investment properties ... which of course left properties purchased by locals to pick up the tax shortfall! The Nova Scotia Utility and Review Board heard the case in 2003 and 2004 (*Homco Realty Fund (20) Limited v. Director of Assessment*). SNS marshalled *two* lawyers to present its case, and even flew in an expert from Phoenix, Arizona to assist their Assessor. Sadly, after sitting their Phoenix fella through three days of Homco's testimony, delivered by our own Giselle Kakamousias, Service Nova Scotia ran out of change for his meter and returned their Phoenix wordsmith from whence he came: wordless.

The Board rendered its 118 page decision on February 28th 2005. They rejected Service Nova Scotia's practice of ignoring sales to national purchasers, identified it as a "systemic error" and observed that *"this problem is further aggravated by the Director's attempt to (in the Board's view) artificially protect the Director's claimed general level of assessment by excluding sales of such large transactions"* and *"while the Director not surprisingly appears to be content with a claimed general level of assessment which is close to 100%, one of the ways the Director achieves this result is to automatically exclude sales that would otherwise lower it"*. Service Nova Scotia promptly appealed the Board's decision.

The Nova Scotia Court of Appeal heard SNS's appeal on May 26th 2006. They rejected every issue raised by the Director of Assessment, agreed with the Public Utility Board, and dismissed Service Nova Scotia's appeal.

Time For Hard Time?

Sales information is not public

knowledge in Nova Scotia: only SNS has access to the data necessary to calculate the General Level of Assessment. In our view this places the Director of Assessment, and its employees, in a unique position of trust. If the Utility Board and the Court of Appeal are correct: that trust has been breached and the person or persons who have breached that trust should be held to account. There is, correctly in our view, an expectation that individuals in the private sector comport themselves in a manner consistent with the trust placed in them by their shareholders and the general public. We believe that the public is entitled to expect the same standard from its public servants and look forward to the Province's redress of the current situation ... Hari Kari would be good; an apology to taxpayers even better; a change in attitude, spectacular!

And Now ...

On May 6th 2006, the Nova Scotia Utility and Review Board heard yet another case involving the General Level of Assessment (*Director of Assessment v. Allan & Ann-Marie Creaser*). The Director of Assessment, aka Service Nova Scotia, had appealed a decision of the Nova Scotia Regional Assessment Appeal Court but had carefully omitted any reference to "uniformity" and the "general level of assessment" in their grounds of appeal. SNS then argued that since it was not included in their grounds of appeal, it had to be ignored even though it was mandated by the Assessment Act ... and that in any event the property owner's expert (ourselves) should be denied the sales information necessary to compute the General Level of Assessment because it was protected by the Privacy Act. From information flows knowledge: the Board bit hard into the apple. It would, the Board declared, be improper to ignore uniformity because that would be inconsistent with the procedural direction given it by the Court of Appeal ... and it would also be inconsistent with the spirit of the Assessment Act. As for the Protection of Privacy Act, the Board clearly felt that it should not be used as an excuse to deny the property owner's representative the information necessary to verify Service Nova Scotia's General Level of Assessment calculation ... or not.

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Service Nova Scotia ignored the Board's decision.

Changing the Guard



Giselle Kakamousias,
B.Comm., AACI, MRICS



André Pouliot,
B.Comm., AACI

On December 15th 2006 Tom Mill\$, our million dollar man, retired after 20 years with our company. Tom joined us in 1986 after spending 14 years with the Province of Nova Scotia's Assessment Department (now Service Nova Scotia). In 1992 he was appointed Vice President of our Property Tax Division and held that position until June 2006, when he relinquished it to Giselle so that he could orchestrate a smooth transition. Tom leaves a strong team behind: Giselle has worked in the Division for 13 years and was formerly its Manager. André now steps into the latter post, after having worked in the Division for 8 years.

BROKERAGE DIVISION

Oh Hell. Sell!



Turner Drake

The Challenge

Barry and Joanne Ducolon, a husband and wife team of investors, took enormous pride in the construction, day to day management and leasing of their properties. "Hands on operators", they had spent 15 years meticulously honing their management system to a level of excellence that allowed them to extract superior returns from their properties. However they had been bitten by the travel bug and wanted to dispose

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of this 35 unit Dartmouth apartment building so they would have more time to travel to exotic places. They were willing to share the secrets of their management system with the new owner provided they could realise a price which would compensate them for their hard work, as well as the real estate. The Ducolons turned to our Brokerage Division for advice.

The Approach

We realised that marketing would be a challenge. Although the property was located in a park like setting with many small homely touches for the mostly female tenants, the building contained only single bedroom apartments. The market preferred a mixture of one and two bedroom units. In addition the asking price per unit, a measure commonly used by purchasers, was higher than that so far achieved in Dartmouth reflecting as it did, the superior management. Our Brokerage Division called upon the resources of our Lasercad™ Space Measurement Division to prepare plans and a physical description of the property. They deployed our Valuation Division to analyse the operating statements and prepare a well documented income and expense pro-forma based on the existing management system. It demonstrated the exemplary and innovative management practices which had allowed the property to outperform the market in terms of occupancy levels, rental rates and operating costs. Our Brokerage Division then prepared a comprehensive Master Sales Prospectus detailing the physical, fiscal and legal attributes of the property.

Winning Results

We were able to secure two offers very close to the asking price within two weeks of commencing our marketing program. After the sale was consummated we received the following unsolicited letter:

"Turner Drake Team: I am impressed with (2) two offers in the first couple of weeks of listing. I am even more impressed with an almost full price offer (very few conditions). Your team effort, co-ordinated and specialised, is effective. Professionalism will almost always outperform instinct and hype. Congratulations and thank you as a team.

Barry & Joanne"

Top Gun!



Russell Allen

Russ Allen, our Manager of Leasing is a modest fellow, little given to blowing his own trumpet. He has an encyclopedic knowledge of the rental market in the Halifax Regional Municipality and during the 14 years he has been with our company has quietly assisted

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clients find space that best fits their operational and budgetary requirements. In his understated way, Russ is a true professional, very good at what he does, albeit loath to boast about it. We share none of his inhibitions, but would have missed the message had not Ing Real Estate Canada, HRM's largest industrial landlord, not trumpeted the fact in an email that last year Russ fitted tenants into more of their space, than anybody else. This, according to Ing, is how the figures stacked up:

Name	Broker	Level	# Points
Russ Allen	NAI Turner Drake	Summit level	44,721
	Colliers	Summit level	39,939
	J.J. Barnicke	Summit level	22,394
	Cushman & Wakefield LePage	Foothills level	7,638
	C.B. Richard Ellis	Foothills level	6,283
	Cushman & Wakefield LePage	Sea level	3,081
	Market Experts	Sea level	2,669

Source: Ing Real Estate Canada

Russ meanwhile, has donned his toga and is heading for Caesar's Palace in Las Vegas to join 1,200 of our colleagues from around the world at the NAI global convention. It is an event rich with ideas, enthusiasm and promise: the business part of it is pretty good too.

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.

VALUATION DIVISION



Rick Escott, B.E.S., AACI

We celebrated twenty five years of Rick's leadership with our company last year. As Vice President of our Valuation Division, Rick has guided our valuation activities through the euphoria of the 1980s, the market meltdown and its aftermath in the 1990s, and the resurgence of the property markets this century. He joined us in 1981 as a valuation trainee, with a Bachelor of Environmental Studies degree from the University of Waterloo. His innate business sense, good humour and capacity to rise to every challenge, quickly established

Rick as an invaluable member of our management team. Apparently some good things do come from Ontario!



Bruce Scallion, B.Comm., AACI Saint Mary's University. Prior to taking this degree, he completed the two year Construction Administration Technology Diploma at the Nova Scotia Institute of Technology, Halifax. Bruce was granted a Diploma in Urban Land Economics from the University of British Columbia in 2000 and is enrolled in the Bachelor of Business in Real Estate degree. He gained accreditation with the Appraisal Institute of Canada in 2004.

Bruce has completed valuation assignments on a multiplicity of property types: apartment complexes, aircraft hangars, banks, car dealerships, manufacturing facilities, office buildings, recreation property, residential subdivisions, restaurants, schools, single family homes, warehouses ...

He is an avid kayaker so it is no surprise that he has extensive experience valuing the many islands that lie nestled in Atlantic Canada's bays and inlets. In the winter months he swaps his kayak for a helicopter.

Shedding Light



In 1730 the French erected the first lighthouse in Canada to guide shipping through treacherous shoals to their great fortress of Louisbourg. Today, Fisheries and Oceans Canada is the often reluctant custodian of many of the 170 lighthouses that dot Nova Scotia's rock bound coast and its inland sea, the Bras d'Or Lake. Technology is rendering obsolete these ancient

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sentinels of the night. Many count as their home, sites of spectacular beauty, objects of desire for wealthy individuals seeking summer refuge from the heat, dirt and bustle of Toronto, New York or Boston. The Federal Government however, mindful of the lighthouse's role in the nation's fabric, prefers to donate them to non-profit community groups committed to preserving them for posterity. Fiscal prudence demands that they first be assigned a market value. Lighthouses at Gabarus and Gillis Point were declared redundant. Fisheries and Oceans Canada turned to our Valuation Division for advice.

The Approach

It is the nature of the beast that lighthouses are built in exposed and inaccessible places ... and that, for reasons known only to those who commission them, valuation assignments are frequently scheduled in the depth of winter. Gabarus Lighthouse was located on an island in the Atlantic Ocean reached by a causeway accessible only on foot, across which the howling wind hurled snow with demonic fury. Gillis Point Lighthouse was built at the tip of a peninsula thrusting out into the frozen Bras d'Or Lake, inhabited now only by deer, rabbit and fox; an endless trek through thigh high snow. Doubly unfortunate then, that our intrepid valuer only realised he had left the lighthouse key in his car, after he had reached his goal. Following these inspections, the hard work began. Uniquely in Canada, sales information is not public knowledge in the Maritime Provinces. We have therefore built the most comprehensive sales inventory in the region: our Compuval™ family of databases contains 160,000 transactions. However each valuation assignment is unique: Compuval™ must be supplemented with sales generated by diligent enquiry of purchasers, vendors and sales agents; prised from their frequently reluctant lips by youthful charm and guile, together with generous bribes of Tim Horton's coffee and caramel glazed donuts. Since the majority of the properties' value lay in the land, the main focus of the research was on locating sales of similar waterfront parcels. Turner Drake has developed a valuation methodology for disaggregating the waterfront benefit

from the raw land value, thus allowing our valuation staff to extract the maximum amount of information from disparate sales data. Each new sale had to be inspected and catalogued: inaccessible parcels were viewed using aerial and satellite photography. The two lighthouse properties were accessible by land only across adjacent ownerships, and the dimensions of one site relied upon a handwritten deed dating back to 1889. The status of these rights of way was researched and the boundaries of each property were transferred to plans sufficiently accurate that their site areas and dimensions could be computed. Given the age of the lighthouses, consideration too had to be given to the possibility of environmental contamination from lead, PCBs, mercury, asbestos and petroleum products. We also researched lighthouse construction costs and life expectancy to determine the current value of each structure.

Winning Results

We calculated the market value of both properties for divestiture purposes. Our youthful valuer survived both wintery inspections with most of his fingers and toes intact.

LASERCAD™ DIVISION: Egg Head



Mark B. Turner, B.Comm., AACI

Congratulations to Mark Turner on attaining his AACI (Accredited Appraiser Canadian Institute) designation from the Appraisal Institute of Canada. Mark joined us with a freshly minted Commerce degree from Saint Mary's University in 2000. He gained his Diploma in Urban Land Economics from the University of British Columbia in

2005, and is currently completing UBC's Bachelor of Business in Real Estate degree.

Formerly Manager, Mark was appointed Vice President of our Lasercad™ Division last year. The Division conducted many assignments in each of the four Atlantic Provinces in 2006 and measured 1.0 million ft.² of industrial, retail, office and residential space.

COUNSELLING DIVISION



Lee Weatherby, FRICS, AACI

"One of the great pleasures in dealing with you is the clarity you bring to your work".

Letters of commendation from clients about Lee's ability are something we have come to expect over the past twenty-five years. As Vice President of our Counselling Division, Lee tackles some of the most challenging of the assignments we undertake for clients. Whether it is providing valuation advice on a two million ft.² complex of pulp mills in northern New Brunswick, counselling a property owner how best to maximise the value of the last significant, privately held waterfront parcel fronting Halifax's North West Arm, or acting as an expert witness in an expropriation case, Lee's keen analytical mind, dry wit, calm demeanour and thoughtful approach effortlessly transforms the most impregnable problem into a practical solution. Grey matter matters.

Please notify us by snail mail, email, fax, telephone or foot if you would like to be removed from, or added to, our mailing list.