

**Wilder, Wetter, Warmer**



Yarmouth, Nova Scotia, May 24<sup>th</sup> 2019 (Image: Turner Drake Valuation Division).

The end of April 2019 ushered floods into three neighbouring provinces. In New Brunswick, the St. John River crossed the highway and lapped at the edge of Fredericton’s downtown; communities downstream were inundated as the river burst its banks. Widespread flooding in Quebec rendered almost 10,500 people temporarily homeless. Communities bordering the Ottawa River in Quebec and Ontario suffered from flooding. As our photo shows the weather was still wending its wicked way at the end of May, this time in Yarmouth, Nova Scotia ... whilst in Alberta an out-of-control forest fire, fueled in part by 29<sup>o</sup> Celsius temperatures, was roaring towards the community of High Level forcing its 5,000 residents to evacuate. Wetter, wilder and warmer are now the defining hallmarks of Canada’s climate ... and coastal areas are particularly vulnerable. Here in Atlantic Canada we are experiencing more frequent and intense rains, higher winds, tides, and temperatures, a greater number of storms and severe weather events, the introduction of pests (such as ticks) and an increase in the number of wildfires.

**The Cost of Climate Change**

Extreme weather events bring stress, heartache... and a financial toll. It’s difficult (perhaps impossible) to precisely calculate the economic cost of climate change: the impacts are broad, and not tracked by any single agency. Furthermore, government relief for climate related damages comes from a variety of sources and programmes,

depending on the specific relief measures required. That said, the Insurance Bureau of Canada estimates that climate change impacts resulting in infrastructure failure and underperformance, cost approximately \$3.5 billion in 2014. Weather is frequently front of mind for Atlantic Canadians, with good reason ... consider the following, recent, events:

In 2016 Hurricane Matthew visited Nova Scotia, merging with another weather system to dump a record 219 mm of rain on the Cape Breton Regional Municipality, and causing over \$100 million in damages. In 2010, “100-year” flood incidents occurred between September and December in three widely dispersed communities: Tusket River, Margaree, and Meat Cove, resulting in approximately \$16.5 million being allocated from the Disaster Assistance Program. In 2003, Hurricane Juan resulted in at least \$31 million in damages from wind and rain in Halifax (we’ve seen estimates that put it at \$100 million in damages). It was followed five months later by “White Juan”, a hurricane-strength nor’easter blizzard which broke all-time 24-hour records by dumping almost a metre of snow on Halifax, Yarmouth and Charlottetown. Halifax now enjoys the dubious distinction of having the largest snow fall in this period, anywhere in the world, for cities with a population exceeding 300,000! In 2010, Hurricane Igor caused \$200 million in damages in Newfoundland and Labrador, making it the most destructive tropical cyclone to strike the province. In 2018, Prince Edward Island recorded the highest temperatures for October in over a century: Charlottetown experienced 16.1° C, 3°C above the seasonal average. Heavy spring flooding along the Saint John River in New Brunswick in 2018 resulted in over \$80

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million in damages... and was only defined as a “notable” event, not a “catastrophic” one! Consider this flood timeline: the highest flood on record in Fredericton was in 1973. 35 years later, the second highest on record was in 2008, then the third highest hit just 10 years later in 2018... 2019 was comparable. The four highest floods on record have occurred within the last 45 years... and the records go back a long way: the oldest recorded flood occurred in 1696.

### **How is Real Estate Impacted?**

Climate change is bringing severe and extreme weather on a more frequent basis. This has a significant impact on real estate, from public infrastructure to private commercial properties and homes. Sometimes it’s a trickle-down effect, whereby the protective infrastructure fails or underperforms, and other properties suffer in turn. Development and infrastructure can exacerbate the damage: paved surfaces do not absorb water ... and urban re-development of forests, fields, wetlands and marshes annihilates nature’s natural absorption infrastructure. Higher temperatures place increased demand on power grids to meet air conditioning needs, and on water availability as a result of drought, and increase the chance of wild fires threatening homes and businesses. More intense storms mean increased snow and ice loads and higher winds, all of which threaten the structural integrity of buildings ... especially with repeated stress from more than one event.

We asked the experts at ClimAction Services Inc., a Halifax based climate and weather consultancy, to assist us identify the threat to real estate in Atlantic Canada from flooding, and its time line. Flooding emanates from three sources: pluvial (rain), fluvial (watercourses), and coastal (or surge). Sea level rise, as the ice caps melt and the ocean expands, is front of mind for owners of waterfront property but the more immediate threat is precipitation. When do ClimAction expect properties to be adversely impacted? Their answer: “After it rains.” Which is to say, this is not an issue anticipated 5, 10, or 50 years hence: climate change is here now and property owners should be prepared at any moment for the damage it will bring. Existing municipal infrastructure for water

dispersal was not designed to meet current exigencies, never mind the future. Excess precipitation, coupled with a storm surge, conspire to create “the perfect storm” for coastal property and since both are the outcome of a hurricane the danger is magnified.

Turner Drake has been tracking sea level rise and coastal flood risk for more than a decade (see our Summer 2007, February 2016 and August 2017 Newsletters). Climate change and sea level rise have conspired to bring storm surges with increasing frequency, threatening coastal properties and infrastructure, such as bridges and roads, with flooding and washouts. Atlantic Canada has a lot of coast line, and most of its high value real estate is located at the water’s edge – not just on rural, rugged outcrops: much of it is in downtown Halifax, Charlottetown, Saint John, and St. John’s. Climate change is more apparent to people living in coastal communities than those inland. The [Yale Climate Opinion Maps](#) demonstrate that such is the case in the United States. In 2018, Canadian Dr. Katherine Hayhoe, Director of the Climate Science Centre at Texas Tech University produced similar findings for Canada in her Halifax seminar on climate change. That is unsurprising, given the higher exposure people living along the coast have to coastal flooding, but more frequent and higher intensity *rainfall* events are now the leading concern for the insurance industry and government (and many homeowners). Most properties are not directly on the coast, so the greatest risk to most real estate is actually from pluvial and fluvial flooding. Pluvial flooding – caused by heavy rainfall – threatens the largest amount of real estate. Fluvial flooding – when a lake or river overflows – results from heavy rainfall and/or snow melt and ice jams. Properties near the water are at risk from heavy rainfall and fluvial or coastal flooding. When it comes to flooding, the old real estate adage “location, location, location” takes on a whole new meaning: all property is vulnerable, but just how vulnerable, and what poses the biggest risk, is site specific.

### **Government Action**

Governments have long been called upon for disaster relief in the wake of climate related damage, but there is

increasing awareness of the need to be proactive in the face of increased, and more frequent, risk ... *and signs that government may be less willing in the future to provide financial support to property owners who have been adversely impacted.* Millions have been spent to repair damaged property; attention is now turning to policy decisions which can prevent or reduce damage in the first place. Some jurisdictions are now encouraging developers and commercial land owners to address climate change as part of their decision-making process. Municipal governments in particular have a vested interest in mitigating property damages, given that they are, in fact, key stakeholders in real property: the primary source of municipal revenues are property taxes. Since 2014, municipalities in Nova Scotia have been required to have municipal climate change actions plans, but face a challenge in identifying and accessing funding to assist with identified action items. Many of the planning related policies to date focus on safety concerns rather than damage prevention. For example, Halifax restricts residential uses along the downtown waterfront to the second floor and above – no flooded bedrooms on their watch – but doesn’t proscribe commercial development at grade. The Town of Rothesay, New Brunswick, in addition to having similar restrictions on habitable space, requires new developments and redevelopments within flood prone areas to incorporate flood proofing into design and construction, has a policy in place to consider acquiring undeveloped lands that are prone to flooding in order to prevent development on them, and includes a provision that developers intent on building in an area at risk of flooding *release the municipality from liability* for flood damage. At the provincial level, Nova Scotia’s Coastal Protection Act (not yet in effect) is designed to protect natural ecosystems, and to restrict new construction in coastal areas to mitigate risk from sea level rise and coastal flooding. Federally, the Government of Canada now requires a climate change lens be applied to any proposal for funding in excess of \$10 million, and for applications under the Disaster Mitigation and Adaptation Fund and the Investing in Canada Plan. Between 2020 and 2025, the Canadian building codes will be adapted to include

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consideration of climate change impacts, including guidelines for certifying the resiliency of roofs to extreme weather events, new structural design rules for buildings to take into account the changing climate, new standards for basement flood protection, and guidelines for climate resilience for existing storm water systems.

Many of Canada’s flood plain maps are out of date, a fact thrown into sharp focus by the recent flooding in Quebec. They are also prepared by municipalities: political influence and the desire to promote development may impact their validity. A recent report indicating that Canada’s flood plain maps are out of date encouraged experts to suggest that the federal government update them in order to support policies that discourage or prohibit building in flood plains, as part of the broader goal of streamlining climate change considerations into mainstream urban planning processes. The insurance industry has been more pro-active: ClimAction advise us that they have access to up-to-date flood plain maps produced internationally, for the insurance industry. Municipal, provincial, and federal levels of government can access them via a local source, as can individuals and corporations. As municipal plans and by-laws are updated, more climate related policies will be put in place: property owners – and those considering buying land – are advised to check the regulations to ensure their building plans are permitted ...Turner Drake’s two “on-staff” professional planners can assist you.

### Insurance

The insurance industry is the vanguard: they are the primary vehicle for compensating property owners impacted by flooding and are therefore very interested in implementing preventative measures to reduce the risk associated with climate change. In the United States, incorporating flood risk mapping into residential appraisals is common: the Federal Government agency FEMA produces and updates flood hazard maps in support of the National Flood Insurance Program (NFIP). However it is not yet customary in Canada to include flood hazard maps in commercial or residential property valuation reports. Nor has there been much evidence that the property market

in Atlantic Canada is accounting for risk from the elements. Our Valuation Division has encountered a few instances where the market value of a coastal property was reduced due to risk of erosion, but thus far, the associated costs of shoring up shorelines for at-risk properties typically far exceed the purchase price differential versus more stable properties. Insurance companies, in contrast, are already pricing climate change risk into their policies, some by accessing and utilising the same flood risk maps used by ClimAction Services. A recent report from the Insurance Bureau of Canada (IBC), calculated that insured damage for floods, windstorms, ice storms and tornadoes reached \$1.9 billion in 2018. As a result insurance rates are increasing and some homeowners are facing double-digit rate increases. Furthermore, they may be required to implement specific preventative measures in order to get coverage, such as mainline backwater valves for sewage. IBC is partnering with the University of Waterloo and the City of Toronto to launch a pilot Toronto Home Resilience Program. This program is designed to provide emergency preparedness and flood risk reduction education for up to 200 homes. Each homeowner will get a flood protection assessment along with suggestions on how they can reduce their basement flooding. So far, there is no similar program in Atlantic Canada, but if the pilot proves successful, it is likely that it will be rolled out to other markets across the county, and across other property types. It would not be farfetched to assume that suggestions will become requirements.

### Property Specific Risk Assessment

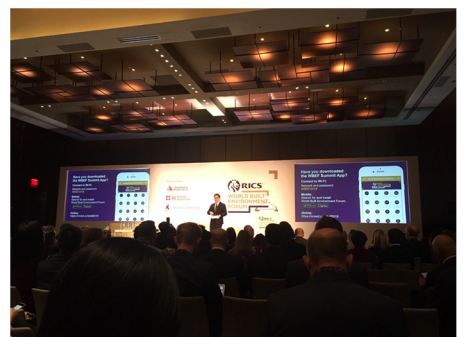
Global warming and climate change are destined to outlast President Trump. So how can you incorporate the impact of climate change into your real estate development and asset management processes? By answering the following key questions: (1) How, and how often, is climate change likely to impact my property? (2) What climate hazard poses the greatest risk? (3) How can I adapt to accommodate what I cannot control? ClimAction advises on Risk & Vulnerability Assessments to help identify climate change risk and to advise on action plans to reduce threats, either during the design phase or on retrofit.

*Our Economic Intelligence Unit identifies and researches trends impacting the value of real estate to assist owners, First Nations, federal, provincial and municipal governments respond to the challenges they face in today’s rapidly changing world. For more information visit our corporate web site [www.turnerdrake.com](http://www.turnerdrake.com) > Corporate Site > Economic Intelligence Unit. If you would like to keep up to date on your changing world visit [www.turnerdrake.com](http://www.turnerdrake.com) > News & Research > TDP Trends. Our Planning Division assists clients navigate an increasingly complex world. For more information contact Neil Lovitt, Senior Manager of our Planning and Economic Intelligence Divisions, at 902-429 1811 Ext. 349 (1-800-567-3033 toll free).*

*ClimAction Services Inc. assists clients to become climate ready by identifying, evaluating and responding to the challenge of climate change. For more information visit their web site [www.climactionservices.ca](http://www.climactionservices.ca).*

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### RICS® WORLD BUILT ENVIRONMENT FORUM



Climate change was also front of mind at the World Built Environment Forum Summit on May 13<sup>th</sup> and 14<sup>th</sup> in New York. The [Summit](#), mounted by the RICS (Royal Institution of Chartered Surveyors), is an annual event bringing together some of the world’s leading thinkers on the built environment. It is hosted in different countries each year (Shenzhen, China will be the 2020 venue) and attracts delegates from 30 countries. Two of our staff, Mark Turner (Company President) and Nigel Turner (Vice President Valuation) were invited by the RICS to this year’s Summit. So what are the defining challenges facing the built environment for the remainder of this century? They are depressingly numerous but can be

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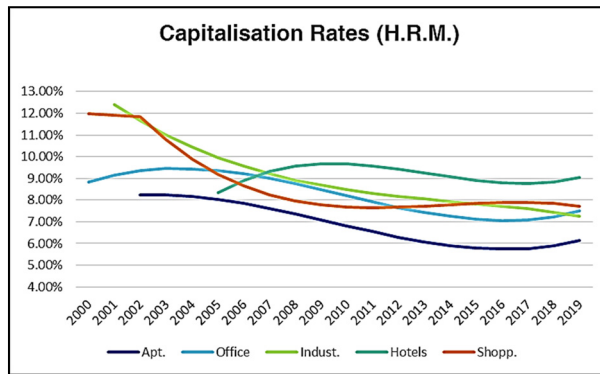
summed up in one word “change”: demographic, technological and environmental. Demographics, as Canadian Dr. David Foot observed in his seminal book “Boom, Bust & Echo”, explain two thirds of everything. The world’s population has expanded by 6 billion over the past 200 years and can look forward to a 4 billion increase over the next 100 years. The big story from the Summit was that this population will be increasingly accommodated in cities; by the end of this century it is expected that 85% of the world’s population will be urban dwellers. Cities are much more efficient at delivering services and worker productivity too is higher, an average 5% increase per capita with each doubling in population size. (We looked at the impact of urbanisation on Atlantic Canada in a [2014 Newsletter article “Rural to Riches”](#) and noted that “... no country in the industrial age has ever achieved significant economic growth without urbanisation”). The focus therefore will be on ensuring that metropolitan regions are resilient, economically viable and that the built environment is altered to meet the challenge of global warming.

Major changes will be required to buildings and the urban infrastructure. Buildings are a major contributor to global warming; the United States’ Green Building Council estimates that they account for 39% of the country’s carbon emissions, but they also face a major challenge from climate change. They, and the urban environment they inhabit, were not designed for today’s climate, much less to combat the 1.7<sup>0</sup>C to 2.8<sup>0</sup>C rise expected by the end of this century. Speakers on “Navigating Climate Risk” included the [Urban Land Institute](#) and property portfolio asset managers who now include climate risk assessment in their purchase decisions and align it with their investment horizon. The Urban Land Institute’s poll found that 50% of portfolio managers have, or are, undertaking a climate risk assessment of their properties. Some cities have pro-actively doubled their storm water retention requirements and are raising infrastructure, such as roads, to combat flooding (Miami was cited as an example... a program which is now meeting resistance from property owners fronting the rights of way). Climate risk assessment has yet to find its way into property appraisals, although a study by Zillow found that residential properties, that have been subject to flooding, suffered a stigma averaging 7% of their value.

*The RICS was founded in 1868 to promote education and professionalism in real estate globally. The Institution has offices in The Americas (Toronto, New York, Washington, Sao Paulo); Australasia (Sydney, Brisbane, Auckland); Europe (Brussels); The United Kingdom and Ireland; the Middle East and North Africa; South Asia and China; and Sub-Saharan Africa. Its members operate in 150 countries: eight of our senior staff are Chartered Surveyors. Turner Drake & Partners Ltd. is regulated by the RICS (Registration #008191). RICS Rules of Conduct for members and firms are available on their web site [www.rics.org/rules](http://www.rics.org/rules)*

## VALUATION DIVISION

### Riding the Yield Curve



Source: TDP CompuVal© Knowledge Base

A Capitalisation Rate measures the rate of return on an all cash purchase. *The Capitalisation Rate is not just a way of determining property value. The Capitalisation Rate and Mortgage Yield curves, taken together, will inform you when your property is going to transition from positive to negative leverage... from a prince back into a frog... from an asset into a liability.* Capitalisation Rates measure risk; they reflect the possibility that actual future income, expenses and property value may differ from those anticipated by the investor on the date of purchase. The more uncertain these variables, the greater the risk inherent in the purchase decision and the greater the rate of return required to persuade purchasers to commit to the investment. The Capitalisation Rate is the ratio of the anticipated first year’s net operating income (post purchase), to the purchase price, expressed as a percentage i.e.

$$\text{Capitalisation Rate} = \left( \frac{\text{Net Operating Income}}{\text{Purchase Price}} \right) \times 100$$

<sup>1</sup>The Net Operating Income is the income remaining after all operating expenditures (other than mortgage debt service and depreciation) have been deducted from the effective gross income. It is the equivalent of EBITDA (earnings before interest, taxes, depreciation, and amortisation).

Although Capitalisation Rates measure risk they also reflect the strength and weakness of supply and demand. Since different Property Types and Property Classes often appeal to different groups of purchasers, Capitalisation Rates do not exist on a continuum but reflect the competition for property within each buyer group. Hotels for example, do not compete for investment dollars with low rise apartment buildings because each predominantly appeals to a different buyer group. Even Property Classes within specific Property Types may not compete for the same group of purchasers; high rise apartment buildings usually find a market with national or international purchasers, low rise apartments appeal predominantly to local or regional players. Both groups may have different appetites for risk, investment opportunities, competition for product, time horizons, tax considerations, access to capital, management capability, local knowledge and operating efficiencies.

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## Harvesting the Raw Data

Computing Capitalisation Rates is a challenge in Atlantic Canada: the property markets are small and the volume of sales low for many of the property types and classes in a particular geographic area. Indeed there may be an interval of several years before a sale occurs for some property classes e.g. regional shopping centres... and there are usually only a very few sales a year for many types and classes of property in a given metropolitan area. This renders it impractical to extract transaction based capitalisation rates on anything less than an annual basis. Some commercial brokers do publish capitalisation rates for the Halifax Regional Municipality, the region's largest metropolitan centre, but even here the number and velocity of transactions are so low the rates quoted are broker's opinions and they usually understate the range of capitalisation rates for any specific property class. Nor can capitalisation rates be reliably extrapolated for a specific property type, or class within that type, from one metropolitan area to another since purchasers and vendors are often locally based. Market demand for space use too can vary widely between communities because of economic factors external to the Region, for example the impact of oil prices on Newfoundland's offshore industry and its influence on office demand. Since most markets are small, well-meaning but misdirected action by government at all levels can, and does, significantly encourage over-building by providing subsidies to encourage "worthwhile" projects. For example, hotel grants to stipulate tourism by encouraging the provision of modern facilities resulted in the rapid and unjustified expansion of hospitality supply in Nova Scotia with a corresponding, adverse influence on capitalisation rates in that province. Compounding the problem is the issue of data availability. Atlantic Canada is the most data deprived area in the country in terms of commercial property sales. This is partly a reflection of its low urbanisation and population density but also the fact that there are four provincial governments each of whom own the data in their respective jurisdiction. All now make raw sales data available and the three Maritime Provinces feed it to our data processing department every month (Newfoundland marches to a different drummer; they also sell us the data but it has to be harvested manually). However the information each province releases is restricted to the transaction itself; property specific details have to be gathered manually from other sources. Rents, vacancy rates, operating expenses (common area maintenance & property taxes) and physical information on the property are harvested by our various Divisions as part of their ongoing operations. Our Economic Intelligence Unit conducts semi-annual market surveys on office and industrial buildings located in each major metropolitan area, gathering commercial property rental, operating expense, property tax and vacancy data. They also undertake apartment and parking revenue and expense surveys throughout the region. Our Valuation, Counselling, Property Tax, Lasercad<sup>®</sup>, Planning and Brokerage Divisions constantly acquire and analyse property data from clients, government departments, Multiple Listing Services<sup>®</sup>, real estate

brokers, appraisers, vendors, purchasers, landlords, tenants, and published sources, throughout the year in all four provinces. In order to manage these data streams we have built CompuVal<sup>®</sup>, a proprietary, leading edge, information technology platform, which acquires data from disparate sources, processes, refines, integrates and analyses it using unique algorithms developed in-house. It includes statistical tools to undertake cross sectional and longitudinal (trend line) analyses. CompuVal<sup>®</sup> is built on top of our Geographic Information System and allows us to search and view property in a geographic context using high resolution aerial and satellite imagery to measure and acquire data not available from other sources.

## Creating the Curve

Capitalisation Rates are most useful as a decision tool if they can be constructed over an extended time period. As a Yield Curve they can indicate (1) whether the value of your property asset class is increasing or declining and by how much, and (2) whether and when your property asset class (and your property) will move from profitability to penury, by comparing the relevant Capitalisation and Mortgage Yield Curves (once the Mortgage Yield Curve's upwards trajectory crosses the Capitalisation Yield Curve your property has negative leverage... time to head for the hills!). Our Capitalisation Yield Curve graph plots the average annual rates for all five main property types (Apartments, Hotels, Industrial, Office and Retail) in the Halifax Regional Municipality. The Capitalisation Rate is the reciprocal of a Profits/Earnings Ratio so *declining* Rates indicate *increasing* property values given a stable or increasing Net Operating Income (NOI). As can be seen from the graph most property types have increased in value over the past two decades but now appear to have peaked. From a Capitalisation Rate perspective the biggest risk they face is increasing Mortgage Rates. Our graph plots the *average Capitalisation Rate by property type*, however the Rates are lower for certain property classes in specific locations: modern high rise apartment buildings on Halifax Peninsula for example, attract Capitalisation Rates around 5%. If the property is highly leveraged a mortgage rate rise of 2% will render the investment, cash flow negative. 2% is not a big buffer. We have grown used to an era of low mortgage rates but we have experienced rates 15% higher than today's "norm" during the four decades we have been in business. However the biggest threat to value stability, for properties other than apartments, is income erosion. Retail is threatened by "on-line shopping", offices by changing work practices, hotels by alternate accommodation via IT platforms such as Airbnb, industrials by a declining workforce... and every property type by government action which favours short term political objectives, or misguided policy based on "gut feel", rather than data based decision making.

We have also created similar Yield Curves for the other major municipalities in the Region. Yield curves have also been plotted for classes within property types, for example Classes A, B and C offices. Since our Ouija

Board was not working they were created by “mapping” available property *class* data to its parent property *type*. The results are compiled in The Cap Rate Report, available on our web site [www.turnerdrake.com](http://www.turnerdrake.com) > Corporate Site > News & Research > Surveys > The Cap Rate Report.

☞ *For the past forty-three years our Valuation Division has had its finger firmly on the pulse of the investment markets: Apartments, Hotels, Industrial, Office, Retail, Seniors’ Housing. Operating from our offices in Halifax, St. John’s, Charlottetown, Saint John and Toronto they provide valuation advice coast to coast with particular emphasis on Atlantic Canada. Check out our Valuation Website [www.turnerdrake.org](http://www.turnerdrake.org) or contact Nigel Turner, Vice President Valuation at [nturner@turnerdrake.com](mailto:nturner@turnerdrake.com) (1-800-567-3033 toll free).*

## BROKERAGE DIVISION

### Net versus Gross Lease... What Does It All Mean?



You are a tenant looking for commercial space to lease. You start your search by checking the local Kijiji ads, and perhaps check with a few colleagues, then realise that you may be in over your head. One ad is asking for \$14/ft.<sup>2</sup> net plus operating and taxes, while another is asking \$3,500 per month gross. How do you compare these two rents? Or perhaps you are a new landlord, eager to fill up your new investment property and start making a return. You are not sure what to charge for rent, but you want to ensure that all of your operating expenses are recovered at the end of each operating year and that you are not out of pocket for any expenses. First let’s summarise the rental terminology: Net Rent, often called “Base Rent” is what a tenant pays for the right to **occupy** a given space. Additional Rent, usually called “Common Area Maintenance (CAM) and Realty Taxes” or “Service Rent” is the cost of **operating** a given

space or property. It includes such things as electricity, heat, garbage removal, snow clearing, etc. It is typically paid for by the landlord and then recharged to the tenant on a per square foot basis. Gross Rent is the sum of all rent paid (Net and Additional Rent). In order to compare a net and gross lease, the rents must be converted to the same basis (i.e. both must be compared on a per square foot basis, or both on a monthly rental basis). For example: let’s say that a particular unit is 1,500 ft.<sup>2</sup> and it is being offered at a Net Rent of \$14/ft.<sup>2</sup> and CAM and Taxes of \$11/ft.<sup>2</sup>. Converting this to a monthly rent is as follows: (\$14/ft.<sup>2</sup> + \$11/ft.<sup>2</sup>) X 1,500 ft.<sup>2</sup> = \$37,500 annual or \$3,125 per month. Alternatively, if you are provided with a rental rate of \$3,500 per month gross for a 1,500 ft.<sup>2</sup> space, you can convert this to a per square foot rate: \$3,500 per month X 12 = \$42,000 per annum / 1,500 ft.<sup>2</sup> = \$28.00/ft.<sup>2</sup>. So which one is better, a net lease or a gross lease? It depends which side of the lease you are standing on. The main difference between a net and gross lease, comes down to who shoulders the risk of increasing operating costs. Under a gross lease, a tenant has committed to a set amount of rent for the lease term. If the operating costs increase during the term of that lease, the landlord “eats” those costs, thereby cutting into his/her effective rent. Under a net lease however, the Additional Rent charged for operating costs fluctuates throughout the term of the lease. Since landlords are recharging the tenants for common area costs, any increases are simply passed on to the tenant. Tenants may prefer a gross lease since it represents a steady and guaranteed rent, and no risk of increasing common area costs during the length of the lease. Landlords on the other hand tend to prefer a net lease since it offers a steady and guaranteed base rent, and any risk of increased expenses is simply passed along to the tenant.


☞ *Ashley Urquhart, the Senior Manager of our Brokerage Division, has a large network of contacts and access to virtually all of the commercial space available for lease in the Halifax Regional Municipality. She would be happy to represent you if you are looking for commercial space... or will act in a leasing capacity if you have space for rent. Feel free to contact her at (902) 429-1811 Ext. 340 or by email at [aurquhart@turnerdrake.com](mailto:aurquhart@turnerdrake.com).*

## QUALITY AWARD



Our Office Manager Patti Farewell and President Mark Turner were on hand to accept the Premier’s Quality Recognition Award at the Halifax Westin on May 21<sup>st</sup>. Hugh MacKay, MLA for Chester-St. Margaret’s made the presentation on behalf of the Premier’s office. There were about 180 people in attendance, from Ontario eastwards. The award recognised leadership in Quality Management Practice. We first implemented a quality management system four decades ago and upgraded it to the international ISO 9001 standard in 2000. It governs all of our activities from job initiation to completion. We utilise a structured process which commences with an agreed Terms of Engagement and then proceeds using standardised, measurable, processes, to the final outcome. In the case of property valuation for example, we inspect the property (using surveys purposed designed for each property type), capture the physical, legal and fiscal attributes of the real estate, acquire and analyse market data using our CompuVal® Knowledge Base, identify value enhancing opportunities and determine the property value conclusion. The process is designed to leave no stone unturned. To keep our feet to the fire we poll every client for whom we have completed work during the previous six months, and ask them to rate us on a five point scale (“poor”, “fair”, “average”, “good” “excellent”). Typically 25% or more of clients respond. We then publish the results, warts and all, on our corporate web site [www.turnerdrake.com](http://www.turnerdrake.com) > Corporate Site > News & Research > Quality Ratings. And of course we follow up all complaints, attempt to resolve them, and then further fine tune our modus operandi to prevent similar failings occurring in the future. Perfection remains a goal, as yet unfulfilled.

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