

Turner Drake & Partners Ltd.
6182 North Street,
Halifax, N.S., B3K 1P5
Tel.: (902) 429-1811

St. John's, N.L.
Tel: (709) 722-1811

Charlottetown, P.E.
Tel: (902) 368-1811

Saint John, N.B.
Tel.: (506) 634-1811

Toronto, ON.
Tel.: (416) 504-1811

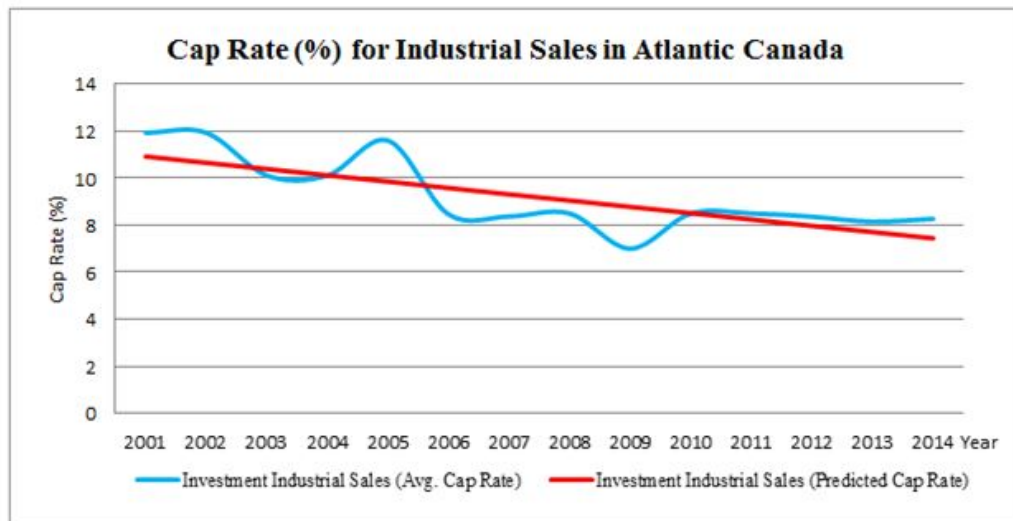
Toll Free: (800) 567-3033
Fax.: (902) 429-1891

E-Mail: tdp@turnerdrake.com
Internet: www.turnerdrake.com



Subject: Investment Grade Industrials

Comments: TDP Trends (Vol. 1 No. 6) reviewed the shortcomings of the Overall Capitalisation Rate (technically "R"). Since it is the property's Year 1 Net Operating Income (NOI) divided by the Sale Price, expressed as a percentage, it does not capture changes in the NOI over the investment holding period. Nevertheless it is the metric most favoured by brokers, investors and their financiers: they eschew more inclusive measures such as the internal rate of return (IRR). The average Overall Cap. Rate is most useful in determining trends in property values. Since it is an inverse ratio, a rising Cap. Rate indicates that property values are falling . . . and vice versa . . . assuming that the NOI is stable.



The graph shows the Cap. Rate for investment grade industrial properties in Atlantic Canada. These properties usually comprise multi-tenant buildings, or occasionally properties leased to a single tenant with a strong covenant.

Property values increased during the period 2001 to 2010 and then stabilised through to 2014. There is insufficient investment sales data to accurately ascertain the price movement in 2015. The lack of sales in 2015 indicates either that (1) prices are falling and sellers are reluctant to sell at prices they perceive to be below market value or (2) a dearth of suitable product. We therefore checked the volume of industrial transactions and while the year is not yet over, it is substantially below that of Year 2014 both in terms of the number of transactions and dollar volume. However a longitudinal analysis indicates that the sale price/ft.² actually increased in Year 2015 over Year 2014.

It is not yet time to man the lifeboat.