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Subject: Industrial Demand Tipping Point

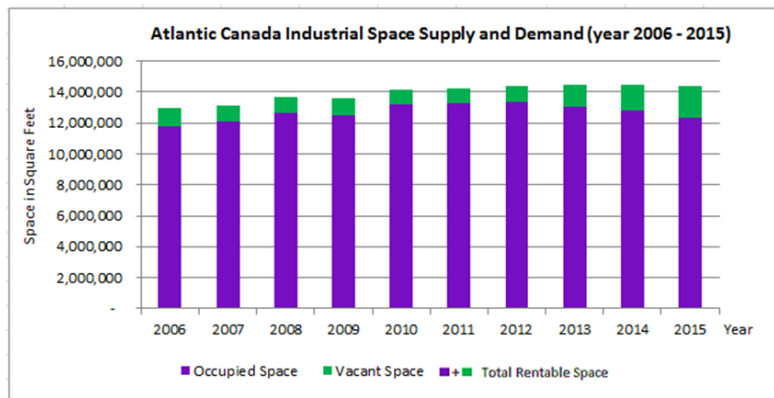
Comments: Economic and job-related uncertainty is dampening confidence in the industrial property market in Atlantic Canada. Vacancy rate hit a 10-year high (13.9%) in year 2015, according to the most recent TDP market survey results. Unlike the office market, demand for industrial space is not as intimately linked to population growth, although as the working age population starts to decline so will industrial space demand. Short term determinants usually involve Real GDP, exports and imports, local availability of land, labour and infrastructure. TD Economics, a financial institute that provides analysis of economic performance and the implications for investors, estimates that exports will be a key driver of short term GDP growth supported by the low level of the Loonie and a recovery in U.S. demand. CSLS (Centre for the Study Living Standards) also project that Canadian GDP growth over the long-run is expected to be slower than in the past due to lower labour force growth (0.6% per year) and productivity growth (1.1% per year).

Industrial development in and around the Atlantic region has been relatively quiet, with some small developments underway but little more. Part of the reason is that newly announced shipbuilding contracts in HRM have thus far failed to deliver the anticipated boost to local job growth. The table below shows Real GDP, exports and imports and the unemployment rate in each province, and for the Atlantic Region as a whole.

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015F | 2016-2026 F | 2027-2038 F |
|-----------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|-------------|-------------|
| Newfoundland | | | | | | | | | | | | |
| Real GDP * | 26,123 | 29,066 | 28,629 | 25,740 | 27,164 | 27,946 | 26,719 | 28,272 | 27,695 | 27,041 | 27,845 | 27,998 |
| Exports | 18,413 | 20,887 | 20,598 | 16,616 | 17,429 | 17,789 | 16,268 | 17,376 | 16,549 | 17,350 | 16,824 | 17,103 |
| Imports | 13,572 | 14,028 | 14,784 | 14,113 | 15,518 | 16,753 | 18,221 | 19,193 | 19,187 | 15,448 | 19,506 | 19,829 |
| Unemployment Rate | 14.8 | 13.5 | 13.3 | 15.5 | 14.7 | 12.6 | 12.3 | 11.6 | 11.9 | 12.9 | 14.3 | 14.4 |
| Prince Edward Island | | | | | | | | | | | | |
| Real GDP * | 4,643 | 4,630 | 4,683 | 4,695 | 4,800 | 4,895 | 4,952 | 5,051 | 5,126 | 5,201 | 5,261 | 5,395 |
| Exports | 2,094 | 2,273 | 2,237 | 2,150 | 2,180 | 2,211 | 2,244 | 2,313 | 2,310 | 2,362 | 2,333 | 2,357 |
| Imports | 3,141 | 3,467 | 3,454 | 3,337 | 3,476 | 3,603 | 3,491 | 3,552 | 3,441 | 3,766 | 3,476 | 3,511 |
| Unemployment Rate | 11.1 | 10.2 | 10.8 | 11.9 | 11.4 | 11.1 | 11.2 | 11.6 | 10.6 | 10.4 | 10.5 | 10.4 |
| Nova Scotia | | | | | | | | | | | | |
| Real GDP * | 33,487 | 33,941 | 34,618 | 34,721 | 35,693 | 35,884 | 35,567 | 35,562 | 35,758 | 36,251 | 36,005 | 36,566 |
| Exports | 14,348 | 15,275 | 14,748 | 13,807 | 14,443 | 14,193 | 14,156 | 14,008 | 13,752 | 14,669 | 13,905 | 14,059 |
| Imports | 20,204 | 21,967 | 21,375 | 21,068 | 22,761 | 23,146 | 22,836 | 22,985 | 22,703 | 23,117 | 22,955 | 23,210 |
| Unemployment Rate | 7.9 | 8.0 | 7.6 | 9.2 | 9.6 | 9.0 | 9.1 | 9.1 | 8.9 | 8.6 | 8.7 | 8.5 |
| New Brunswick | | | | | | | | | | | | |
| Real GDP * | 28,055 | 28,287 | 28,501 | 28,080 | 28,643 | 28,702 | 28,417 | 28,530 | 28,436 | 28,743 | 28,655 | 28,873 |
| Exports | 21,825 | 22,295 | 21,634 | 21,083 | 22,259 | 21,991 | 21,840 | 21,308 | 20,911 | 22,337 | 21,154 | 21,399 |
| Imports | 24,733 | 26,184 | 25,909 | 25,475 | 27,279 | 27,367 | 26,726 | 25,695 | 25,285 | 27,374 | 25,578 | 25,875 |
| Unemployment Rate | 8.7 | 7.5 | 8.5 | 8.7 | 9.2 | 9.5 | 10.2 | 10.3 | 10.0 | 9.7 | 9.4 | 9.6 |
| Atlantic Canada | | | | | | | | | | | | |
| Real GDP * | 92,308 | 95,924 | 96,431 | 93,236 | 96,300 | 97,427 | 97,325 | 97,415 | 97,015 | 97,236 | 97,765 | 98,832 |
| Exports | 56,680 | 60,730 | 59,217 | 53,656 | 56,311 | 56,184 | 54,508 | 55,005 | 53,522 | 56,718 | 54,215 | 54,918 |
| Imports | 61,650 | 65,646 | 65,522 | 63,993 | 69,034 | 70,869 | 71,274 | 71,425 | 70,616 | 69,705 | 71,515 | 72,425 |
| Unemployment Rate | 10.6 | 9.8 | 10.1 | 11.3 | 11.2 | 10.6 | 10.7 | 10.7 | 10.4 | 10.4 | 10.7 | 10.7 |

* Real GDP, Exports and Imports (millions chained 2007\$)
Source: CANSIM table 384-0038 & 109-5334, TD Economics & CSLS

As the Real GDP reaches its peak, expect industry demand to level off and then start to decline. Atlantic Canada had its highest Real GDP value for the past decade in 2011, with a slight decline in the following year. We anticipate little increase in industrial demand in the next decade, as GDP growth levels off and working age population continues to decline from its 2011 peak. The bar chart below reflects this leveling off in industry demand starting in 2011.



Source: Turner Drake & Partners Ltd. Market Survey Dec. 2006 to Dec. 2015.