

BOOM (Newsletter Winter 1999/2000)

On The Cusp of A Boom?

"Atlantic Canada is on the threshold of great prosperity. Never before have we seen this amount of investment in energy projects earmarked for the region, not to mention the opportunities that the wired world offers."

Hector Jacques, CEO & Chairman, Jacques Whitford Group, quoted in Atlantic Progress Magazine, January/February 2000 issue.

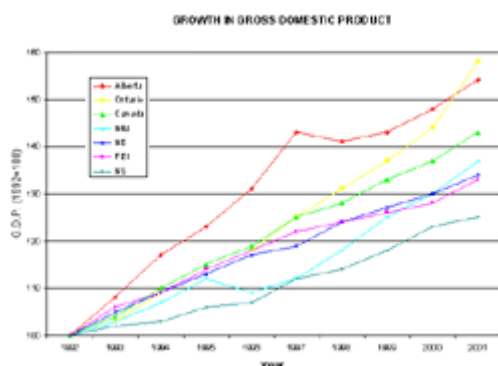
The Jacques Whitford Group, headquartered in Dartmouth, Nova Scotia has grown from a single office in 1972 to a workforce of 700 spread over 18 offices in Canada and 5 locations in the United States. The company also has joint venture partners in St. John's, Newfoundland; Moscow, Russia; Port of Spain, Trinidad; Southampton, U.K.; and Buenos Aires, Argentina. In an article entitled "Enemy of the People. The biggest hindrance to a healthy and productive society is excessive government" , Mr. Jacques lays out the pre-requisite for a boom in Atlantic Canada: the reduction of government involvement (the region has almost three times as many civil servants as Alberta, a province with only 25% more population and double the Gross Domestic Product). Advocating a pro-active programme of privatisation Mr. Jacques argues that "governments should focus on what is intrinsic to them – namely, law and order, health, education and social services. In all other areas they should ask themselves two critical questions: 'Can the private sector do this better?' If the answer to that is 'Yes', then government shouldn't get involved. For the second question in all areas, governments should ask themselves 'Will this action lead to improved competitiveness?' If the answer to that is 'No', then do not do it."

How likely is it that the Atlantic Region will emulate Alberta and liberate the private sector from the yoke of government? The dynamics of economic success are well known: flexible labour markets, the elimination of barriers to competition, strong entrepreneurship and a dynamic, liberal financial sector. In a rapidly changing world, where time is measured in Internet years, the ability to turn on a dime is essential to survive even, let alone prosper. The ponderous perambulations of government bureaucracy are as attuned to this world, as the elephant is to the foxtrot. Yet it is this freedom that has allowed the private sector in countries such as the United States to seize the moment and create enormous wealth. Yet privatization is occurring only slowly in Atlantic Canada: job preservation by politicians and the civil service is paramount. However change is occurring, partly because of the Federal Government's programme of privatisation; partly because the municipalities and provinces have no option, they have run out of cash; and because its benefit as **the** creator of wealth can no longer be ignored. The speed of change will depend on the tolerance of taxpayers: they are gradually losing patience. However there is no evidence yet of a determined effort to reduce the role of government in the region's economy: rather it proceeds in fits and starts and is almost always a response to some

financial crisis. It is re-active, rather than pro-active. The boom, for the moment, remains on 'hold'.

Economic Activity in Atlantic Canada

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We have plotted the Gross Domestic Product (GDP) for Canada, Ontario, Alberta and each Atlantic Canada province using 1992 as base 100. Statistics Canada provided the raw data for the years 1992 through 1998. The Atlantic Provinces Economic Council (APEC) supplied the 1999 and 2000 estimates for the four Atlantic Provinces. The other estimates were prepared by the Toronto Dominion Bank.

Newfoundland buoyed by offshore oil is expected to be the leader in the Atlantic region with a growth rate which will also exceed Canada, Alberta and Ontario in the post 1998 period. The other three provinces are expected to perform equally, though below that for the country as a whole. Nova Scotia has been the slowest to recover from the recession: it still labours under an enormous government debt load incurred during the 1980s ... and it faces the problem of Sydney Steel, a crown corporation with what is probably the worst environmental problem (the Tar Ponds) on the continent.

Property Markets: Cautiously Optimistic

Like Banquo's ghost at the feast the 1990 recession continues to cast a shadow over the property markets, particularly those in Nova Scotia. Were it not for its lingering presence, all property markets especially those in the region's capital Halifax, would have surged ahead. But liquidity is lacking. The Trust Companies have gone, the Banks have religion and the Life Companies, shareholders. These, the chief financiers of real estate during the 1970s and 1980s, have gone "cold turkey". Virtually the only commercial mortgages that still find favour are apartment properties, especially the CMHC insured variety. The Royal Bank and the Toronto Dominion Bank (and now its new bride, Canada Trust) are actively reducing their mortgage portfolios; Scotia Bank and Standard Life are no longer interested in commercial mortgages. The Bank of Montreal however still insists that it is in the mortgage business: the Business Development Bank of Canada (BDC) and some Credit Unions will finance loans under \$1 million. The Real Estate Investment Trust (REITS) have brought some much needed liquidity to the market for larger properties but they have their own problems: like the major property companies they lack the sex appeal of IT stocks and trade at a substantial discount to their "break-up value".

We have reviewed the various property markets to determine the degree of their post recession recovery. Some of the key market indicators are shown in the table.

Property Type	Location	Price Fall (% of 1989 Value)	Year Values Started to Recover	Present Value (% of 1989 Value)	Current Value
Hotels / Motels	New Brunswick	50%	1995	100%	Increasing
	Newfoundland	50%	1995	100%	Increasing
	Nova Scotia	50%	1995	100%	Increasing
	Prince Edward Island	50%	1995	100%	Increasing
Apartments	Nova Scotia: Halifax - Peninsula	5% to 10%	1997	100%	Increasing
	Halifax - Fairview	25%	1997	100%	Increasing
	Dartmouth - Highfield Park	50%	1997	90%	Increasing
	Sackville	30% - 50%	1998	90%	Increasing
Industrial	Nova Scotia: Dartmouth - Burnside	25% to 75%	1997 / 1998	55% to 100%	Increasing
Offices	Nova Scotia: Halifax C.B.D.	55%	1998	75% to 100%	Increasing

It has taken ten years but, as the data indicates, most markets have recovered the value they shed in 1990. We anticipate that the laggards, most notably the office buildings in the Halifax Central Business District will have recovered all of their lost value within the next 24 to 48 months. (Rental levels should be back to their 1989 peak in 12 to 24 months, but there will be a lag because of unexpired leases at sub-1989 rental levels). Thereafter values should continue to increase, so long as the G.D.P. grows, because little new supply will come on stream. There is substantially less risk today investing in real estate because new supply of most product, other than apartments, is likely to be more severely constrained than in the 1980s. This is a good time to own real estate.

Halifax is a beneficiary of the offshore oil and gas activity and more firms connected with it will move into the C.B.D. this year. Sable gas started to flow via the pipeline to New England, through Nova Scotia and New Brunswick, in December 1999. Sempra Atlantic Gas Inc. has local distribution rights in the province and they hope to start supplying industry and homes in the region's capital city by the end of 2003. They will start construction of their distribution network in the Burnside-Sackville area in July 2000.