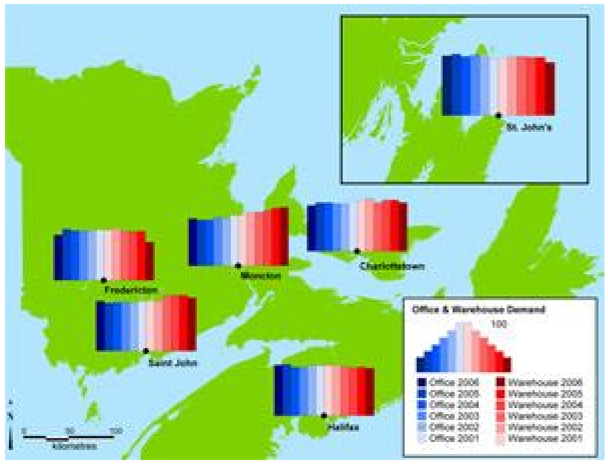
WHERE HAVE ALL THE WORKERS GONE? (Newsletters Spring 2007)



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Source: Turner Drake & Partners Ltd. Field Survey May to July 2006.

Gone to Alberta Everyone!

Well actually no, many still head for Ontario … to replace workers who have headed for Alberta. But the effect is the same: Atlantic Canada is bleeding workers. This haemorrhage is getting worse: during the twelve month period ending 30th June 2006 the region lost almost 1% (12,213) of its workforce to greener pastures elsewhere in the country. Very few return … and those that do so are widely quoted in the media as criticising this region’s high taxes. Since it is the younger workers who are more mobile, the out migration is contributing to the aging of the population. Births still outnumber deaths, and immigrants from other countries outweigh emigration, but not in sufficient numbers to redress out migration to other provinces. We estimate that the region's working age population fell by 2.07% over the five year period ending 30th June 2006. The working age population figures, i.e. those aged between 18 and 64, are detailed in the table below. Statistics Canada provides an actual working age population count for the 2001 Census, and estimated figures for the years 2002 to 2005. They have released the total population count for the 2006 Census, but will not provide the working age population count until 1st July. We have therefore estimated the working age population for 2006 and 1996 using the same ratio of working age to total population, as Statistics Canada. It is probable that these figures will err on the high side, as is the case with the Statistics Canada’s 2002 to 2005 estimates. The table thus displays a “best case” scenario: the working age population loss is probably higher than the estimated figures suggest. The table shows that the population of working age increased steadily each year during the time period 2001 to 2005 for every province other than Newfoundland. Working age population started to decline in that province in 2005, and a year later in the other provinces.

TURNER DRAKE & PARTNERS LTD.

Province	Working Age Population (age 18-64) Year Ending June 30th						
	2006	2005	2004	2003	2002	2001	1996
Newfoundland	333,610	346,758	347,123	346,741	345,697	345,643	364,183
Nova Scotia	593,750	614,828	612,347	608,881	604,942	600,210	591,033
PEI	85,586	88,133	87,538	86,572	85,760	85,143	84,771
New Brunswick	474,498	496,511	495,427	493,219	490,531	487,946	479,786
Total	**1,487,444**	**1,546,230**	**1,542,435**	**1,535,413**	**1,526,930**	**1,518,942**	**1,519,773**

Source: Statistics Canada & Turner Drake's Economic Intelligence Unit.

Urban Animals

Although there is anecdotal data confirming the out migration to other provinces on a scale unprecedented in recent history … all of us now know of neighbours, colleagues, friends and/or relatives who have migrated within the past twelve months … the impact has been masked in the metropolitan centres by an influx of people from the countryside. Humble Hodge has happily swapped his hovel of thatch and wattle for an eyrie in the sky at one of the apartment high-rises mushrooming in the region's urban landscape. The following table tells the tale:

Metropolitan Area	Census Population 2006	2001	% Change 2001-2006
St. John's CMA	181,113	172,918	4.74%
Halifax CMA	372,858	359,193	3.80%
Charlottetown CA	58,625	58,358	0.46%
Moncton CMA	126,424	117,727	7.39%
Saint John CMA	122,389	122,678	- 0.24%
Fredericton CA	85,688	81,346	5.34%
Total	**947,097**	**912,220**	**3.82%**

Source: Statistics Canada 2006 & 2001 Censuses.

Implications for Real Estate

What are the implications for real estate in the Atlantic Region as the working age population declines? We first realised something was afoot when Public Works and Government Services Canada (PWGSC) commissioned us in 2006, to undertake a survey of office and warehouse rental space in each of the major metropolitan areas in the region. Our Economic Intelligence Unit surveys every office building (≥ 10,000 ft.²) and warehouse (≥ 20,000 ft.²) available for rent in St. John's, Halifax Regional Municipality (HRM), Charlottetown, Moncton, Saint John and Fredericton. The first surveys were completed in June 2006: a second series of surveys was completed in December 2006. The June 2007 surveys are now in progress. The surveys are the most comprehensive ever conducted in the region. They capture information on property ownership, building size, occupancy level, rental and operating expenses on an individual property basis. The data is entered into an "intelligent" geocoded database, specifically designed for this project. Our contract with PWGSC provides that we retain ownership of the data. We are thus able to provide participants in the survey with the survey results at no cost. We have had tremendous participation by property managers: virtually all responded with information; and we are continually improving the database to make it easier for them to participate.

PWGSC also provided us with data from similar surveys conducted for them during the period 2001 to 2005 by Royal LePage (now Cushman & Wakefield LePage). Since these surveys encompassed a much smaller population of buildings and were conducted variously on six month or annual cycles, we developed heuristic algorithms to create a time series based on a consistent twelve month cycle.

These algorithms, (1) compensate for the missing data, (2) utilise the existing data to calculate demand for the entire population of properties included in the Turner Drake surveys, (3) ensure that the historical data will improve as we conduct subsequent surveys. *The Federal Government, through PWGSC, has thus enabled our Economic Intelligence Unit to provide developers and investors with access to a resource of a breadth, depth and quality never before available in this region.* The algorithms, our 2006 survey, and the earlier Royal LePage surveys, allow us to compute market demand for office and warehouse space in each of the six metropolitan areas for the years 2001 through 2006. The base data is detailed in the following table:

Metropolitan Area	Warehouse Demand			Office Demand		
	2006	2001	% Change	2006	2001	% Change
St. John's CMA	1,767,133	1,890,972	- 6.55%	2,339,968	2,234,313	4.73%
Halifax CMA	6,039,158	6,353,126	- 4.94%	8,341,354	8,226,247	1.40%
Charlottetown CA	221,058	229,525	- 3.69%	727,874	797,240	- 8.70%
Moncton CMA	2,228,902	1,923,493	15.88%	2,475,341	2,663,483	- 7.06%
Saint John CMA	398,183	375,171	6.13%	1,653,028	1,642,337	0.65%
Fredericton CA	232,895	302,565	- 23.03%	1,833,822	2,031,909	- 9,75%
Total	**10,887,329**	**11,074,852**	**- 1.69%**	**17,371,387**	**17,595,529**	**- 1.27%**

Source: Turner Drake's Economic Intelligence Unit Surveys June & December 2006.

For ease of comparison we have plotted the demand by space type and location on the map using Year 2001 = Base 100. Despite a growing economy, office and warehouse demand has stagnated throughout the region.

During the period 2001 to 2006, aggregate demand in the six major metropolitan areas *decreased* by 1.69% (warehouse) and 1.27% (office): this despite the fact that the total population of these areas *increased* by 3.82%. Perhaps more significantly, the Atlantic Provinces' working age population decreased by 2.07%. Real estate in the region is going to face significant challenges if the population of working age continues to decline. There has been no co-ordinated response yet by the provincial governments: they continue to compete with each other in a region with half the land mass and population of the next smallest province. Such responses as have occurred focus on draining tax monies from the region's successful firms to subsidise companies from outside the region who wish to relocate here … and billboard advertising in Alberta designed to persuade workers who have migrated there, they have made the wrong decision.

The changing pattern of demand within the region reveals systemic changes due, for example, to shifting methods of conducting business following the 1990 recession. This has meant that Moncton has continued to grow as a distribution centre for the three Maritime Provinces. It has captured 305,409 $ft.^2$ of warehouse demand during a period when Halifax CMA lost 313,968 $ft.^2$ and Fredericton CMA lost 69,670 $ft.^2$. Moncton's central location was further consolidated by the completion of the Confederation Bridge to Prince Edward Island in June 1997 and the twinning of the Trans Canada Highway through New Brunswick, expected to be completed this Fall.

Estimating Demand

We have built a supply and demand model to assist clients with their asset management. At present it is confined to office and warehouse property. It captures existing and past supply and demand from our surveys and utilises that information, together with current and projected economic data, to forecast vacancy, rental rates and operating expenses in each of the six major metropolitan areas in Atlantic Canada. The model is driven by recent historical data together with intelligence on projects currently under construction or in the pipeline. We use a five year forecasting horizon. Our model is pragmatic rather than esoteric: it favours a practical methodology built on our thirty years' observation of markets in the region rather than arcane mathematical formulae … unless of course we exhaust our ideas … in which unhappy event we rely on obscure mathematical techniques, entrails from the odd chicken, a crystal ball, any clean palm, tarot cards, pontificating provincial politicians … well perhaps not the latter …