

Tiptoeing Through The Tulips



No, it's not the Netherlands! This is Prince Edward Island, as it is in May, each year. A riot of colour in Canada's Garden of the Gulf. This is Belfast Tulips, one of two tulip field locations in the province open to the public. The field is planted by Vanco Farms Ltd.: their main production fields, where the bulbs are grown for market, stretch to the horizon but must be admired from the roadside. In the east of the province, monks with the Great Enlightenment Buddhist Institute Society also allow visitors into their tulip fields. Immigration has enriched the Island. We are now into our fifth decade in the province and still marvel that clients actually pay us to work here. A gentle landscape of rolling farms and woodland, sparkling streams and rivers full of fish, white sand beaches caressed by the St. Lawrence. And the seafood! Its mussels and oysters are world famous, and ubiquitous; in every bay. Sweet succulent lobster washed down with chilled white wine, vegetables freshly plucked from the field... life doesn't get any better than this... alas there are storm clouds on the horizon!

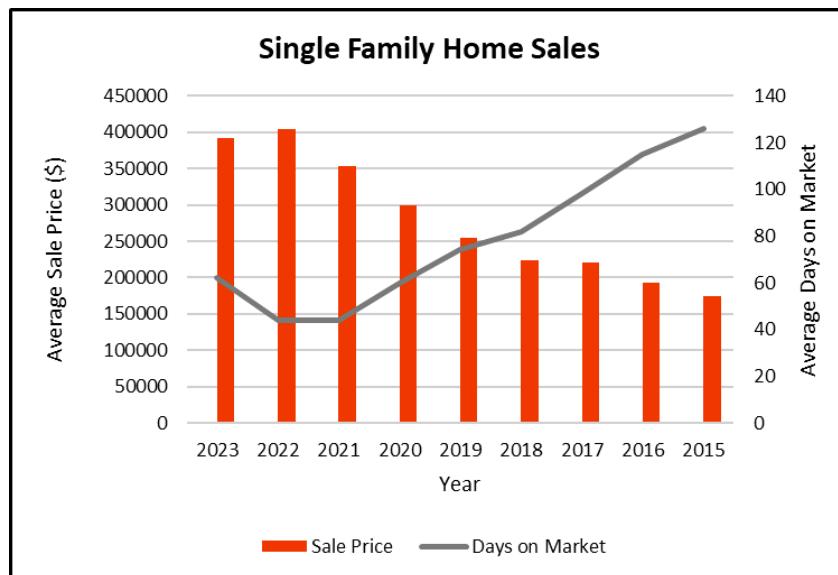
Covid-19

The first case of the virus reached Canada on January 25th 2020 and was officially declared a pandemic by the World Health Organisation on March 11th. The first confirmed case in Prince Edward Island was on March 14th, a woman who had been on a cruise and returned via a WestJet flight from Toronto a week earlier. On March 17th all bars, dine-in restaurants, theatres, indoor play areas were closed. Shortly thereafter Atlantic Canada, mindful of its limited health and financial resources, shut itself off from the rest of the world. Within the Region it created a dystopian world of guarded borders which limited, and in some cases banned, interprovincial travel. All visitors were screened on entry to the Province and were asked to self-isolate for two weeks. The 2020 Tourist Season was effectively cancelled before it began. On July 3rd, in an effort to save the remainder of the Tourist Season and inter-provincial trade, the four Atlantic Provinces created the Atlantic Bubble allowing their residents to travel between their provinces without self-isolating. This was abandoned on November 23rd 2020. Limited inter-provincial travel within the Region continued through the 2021 Tourist Season without self-isolating for vaccinated individuals, but it was not until the following year that tourists from outside the Region were allowed to return. The Province, indeed the Region, were able to very successfully hold Covid-19 at bay until a large portion of its population had been vaccinated. In all the pandemic severely restricted tourism for two years but, as the table below shows, its overall impact was surprisingly low. The Tourist Season, which lasts from early June to mid-October, bounced back in 2022.

Gross Domestic Product (GDP) Chained (2012) Million Dollars		
Year	All Industry	Service Industry
2022	\$6.52	\$4.86
2021	\$6.36	\$4.69
2020	\$5.89	\$4.36
2019	\$5.99	\$4.45
2018	\$5.73	\$4.30
2017	\$5.64	\$4.22

Source: StatsCan Table 36-10-0402-02

Residential Market

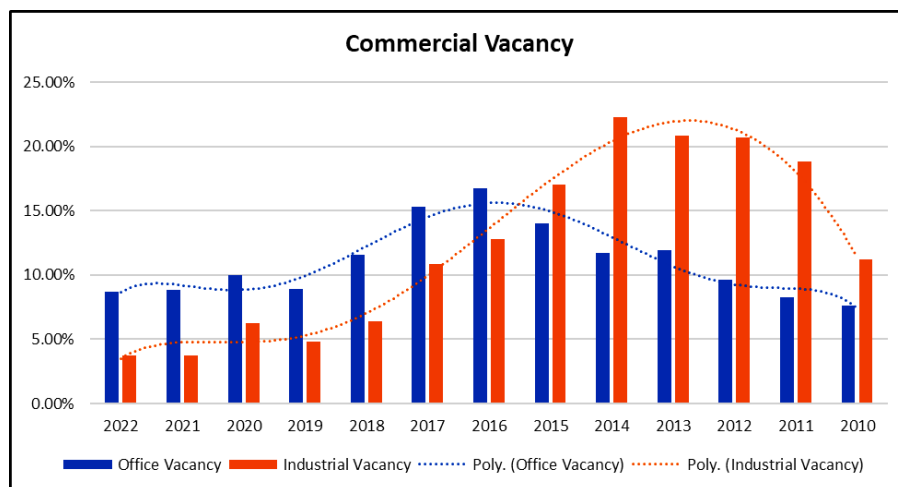


Source: Prince Edward Island Real Estate Association Paragon

As the graph above illustrates, single family home values started to increase in 2019 and then escalated rapidly through the pandemic, gaining an average of 59% from then to 2022, a phenomenon observed throughout much of the country, indeed the western world. The most common explanations revolve around (1) the low cost of borrowing and (2) the fact that most people had to work from home during the pandemic and therefore wanted to invest in larger property... and had more disposable income with which to do so since there was less to spend it on. Cost of mortgage finance was certainly low and provided fertile ground for an increase in residential property demand. The five-year mortgage rates in Canada had fallen steadily since the end of 2007 before bottoming out by the end of 2016, rising by 77 basis points by March 2019 and then falling again to a new low in February 2021, until the Bank of Canada, alarmed by rapidly rising inflation, started to rapidly increase its Overnight Rate in March 2022. The pandemic was a Significant Emotional Event (SEE) which caused a reassessment of work style. The question is why the increase in demand had such a dramatic impact on PEI residential property values? In reality, the supply of property for purchase represents a very limited proportion of the total residential inventory and is price inelastic so any increase in demand causes a more than proportionate increase in price. Normally when prices increase the supply increases in response but housing stock is the exception that proves the rule. Owners do not place their properties on the market for sale in great numbers in response to value increases, because they still require accommodation. They were also less inclined to do so during the pandemic because of the increased risk of infection from Covid-19 as potential purchasers trooped through their home. During the five years preceding the pandemic an average of 1,972 single family homes were listed for sale each year in PEI compared to 1,883 during and immediately after it. It also takes a long time to increase the supply of new homes because of municipal approval, labour and materials constraints. This combination of increased demand, reduced supply of homes for sale and the availability of cheap mortgages were the reason PEI residential prices escalated so rapidly. Market conditions had steadily "firmed up" prior to the pandemic, going from a Buyer's Market in 2015 (Average Selling Time 126 days) to a Firm Market in 2019 (Average Selling Time 74 days). During the

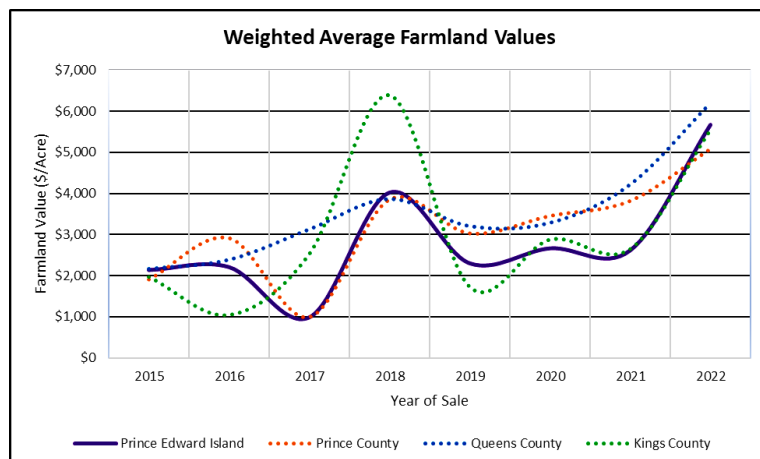
pandemic Average Selling Time decreased from 60 days in 2020 to just 44 days in 2022 (a Seller's Market) but has lengthened to 62 days this year. The cheap money tap has now been turned off. The Bank of Canada's Overnight Rate, having jogged along at 0.25% for many years, was steadily increased by a total of 4.0% last year and another 0.25% in January this year. Five-year mortgage rates are now 2.61% above their August 2021 low. We believe that the era of ultra-cheap money is over for good and expect mortgage rates to continue to increase by another 50 to 100 basis points. We anticipate that single-family house prices will fall slightly in Prince Edward Island in 2023 and they have already started that decline (see graph). The fall will be ameliorated by increasing immigration to the Island and prices will increase again in 2024 or 2025.

Commercial Market



The majority of the office and industrial rental space in PEI is located in the Greater Charlottetown Area. Our Economic Intelligence Unit surveys every building with a rentable area of 5,000 ft² or more, the office space semi-annually and the industrial space each December. As the graph above shows, office vacancy peaked in 2016 at 16.76% but has since fallen to a more reasonable 8.72%. Net absolute to landlord rents per square foot have increased steadily since 2010 but only at an average rate of 1.2% per annum, well below the inflation rate. The pandemic caused a shift to home-based activity and this continues to place downward pressure on office space demand. Having worked from home for two years, there is resistance to returning to an office environment especially by public sector employees. The benefits of working in an office community revolve around training, communication, productivity, creativity and idea generation... factors which are rewarded in a private sector environment but are less well recognised in government employment. Nevertheless, we understand that the Federal and some provincial governments are starting to require their employees to return to work initially on a three day per week basis. Industrial vacancy peaked in 2014 at a staggering 22.28% but, as has occurred elsewhere in Atlantic Canada, has declined each year since and now stands at a sub-optimum low of 3.76%. There is now a scarcity of industrial space for rent. This is reflected in net absolute to landlord rental rates which have steadily increased by an average of 4.91% each year since 2010.

Farm Land



Source: TDP CompuVal® Knowledge Base.

We have compiled a database of farm and farmland sales, developed farm specific valuation software, sourced soil survey, forest inventory and Canada Land Inventory map layers and integrated them with high resolution satellite and three-dimensional aerial photography to offer farmers on the Island access to a professional valuation service for succession planning, estate freezes, sale, purchase, financing and other purposes. Our CompuVal® Knowledge Base tracks farm and farmland sale prices: the graph above is extracted from it and is part of more comprehensive monitoring which covered the period 2002 to the end of 2022. Farmland values in Prince Edward Island, as a whole, did not show a significant price increase during the period 2003 to 2016, just 1.4% per annum compound on average. The same trend is evident if the sales are analysed on a county by county basis. Our data indicates that prices dipped in 2017 but there were few sales so the data is unreliable for that year. Prices per acre took off in 2018, paused during the 2019 to 2020 period, and have escalated rapidly since then. Sales volumes too have increased substantially; for 2018 and prior years they averaged about 2,000 acres per annum. Since then the pace of sales has averaged almost 6,000 acres per year. Agricultural land on the Island has been undervalued in the past, in our opinion, compared to similar land in Nova Scotia and New Brunswick. It appears at last, to be selling at per acre values that represent its true worth.

Climate Change

Uneasy lies the head that wears the crown... Prince Edward Island is a grim harbinger of climate change, the canary in the coal mine. “Wilder, wetter, warmer” was how we defined climate change in our [Summer 2019 Newsletter](#). This is how climate change impacts the Atlantic Provinces in general, but its impact is amplified in Prince Edward Island: more frequent and higher winds, precipitation of higher intensity, sea level rise, wildfires and the introduction of pests such as ticks. The Island was once a tranquil place, in summer anyway. Warm gentle breezes riffling meadows made golden by a blanket of dandelions or tickling the sea’s surface into laughter. Now, it is often a restless and noisy land as wind gusts shake its trees and angry seas vent their frustration against vulnerable shores.

Charlottetown is vulnerable to sea level rise; we analysed its potential impact in our [Sea Level Rise Research paper](#). It was not a pretty sight! Using the 5-metre contour as our guide, all of the downtown area, including Province House, would be under water. At the time the article was published (2016) the United States’ National Oceanic and Atmospheric Administration (NOAA) were predicting a maximum projected sea level rise scenario of 2.5m. (8.20 feet) based on 1.5°C global warming over baseline pre-industrial levels... a limit whose credibility was fast fading before Putin’s war on Ukraine and which now appears very unlikely to be met. We had taken an earlier look (in 2007) at the impact of rising sea levels and storm surges on Charlottetown in our [Sinking Feeling Research paper](#). That research was inspired by a January 2000 storm surge in Charlottetown harbour which had resulted in sea levels 0.4 metres above the previous record causing \$1.0 million of flood damage. The impact of adding another 0.75 metres to Charlottetown’s predicted tide levels, together with 0.57 metres of storm surge, would increase flood damage to \$172 million. A storm surge of 1.04 metres would mean \$190 million of property damage and a storm surge of 1.27 metres would result in losses of \$202 million. These losses are in 2007 dollars. Storm surges currently occur about eight times per year.

But the more immediate threat is higher and more frequent winds particularly if they accompany precipitation as in a hurricane. The University of Prince Edward Island’s Climate Lab studies the impact of climate change on the Island, in particular coastal erosion. Their “*CLIVE (Coastal Impacts Visualization Environment) is a leading-edge climate change impacts visualization tool. It combines historical erosion data, IPCC model projections of future sea-level rise, aerial imagery, and high-resolution digital elevation data to develop analytical visualizations of coastal erosion and future sea-level-rise scenarios*”. They were kind enough to demonstrate it to us. They claim that it has caused grown men to cry! We understand why; it is bloody depressing. The Island is particularly vulnerable to erosion; it is a sand bar in the Gulf of Saint Lawrence so is impacted by heavy rain runoff, sea level rise and high winds. Coastal erosion of 30 cm. per year is common in many areas. Unfortunately, that is the good news. Hurricanes used to be a “once in twenty years” event; their force spent battering Nova Scotia, allowing them to transmute into a more benign post tropical storm by the time they arrived on the Island. That does not appear to be the way anymore. Whatever they are called, they now do much more damage and, if recent history is any guide, they are more frequent. Hurricane Juan visited Atlantic Canada in 2003 and after it had passed we relaxed, expecting relief for another twenty years. Hurricane Dorian showed up three years early, in 2019, and did considerable damage to forests especially along the North Shore of Prince Edward Island where, amongst other damage, it decimated the popular Parks Canada Cavendish campsite, resulting in its closure. Hurricane Fiona came along just three years later in 2022. It caused even greater damage than Dorian, especially along the North Shore, toppling trees, washing out roads, and causing up to 10 metres of erosion to the beautiful white sand dunes and red earth cliffs in the National Park along its 60-kilometre coastline. Fiona demolished buildings and devastated forests in areas outside the National Park as well. Areas impacted by Dorian and Fiona will never recover their former glory even if there are no more storms in the next 100 years. The impact of a single storm, Fiona, on the shoreline of the writer’s property, eclipsed the erosion of the prior thirty years, swept away the remedial measures taken to ameliorate them and rendered further efforts futile. Fifty-foot trees were toppled and

heavily forested landscapes reduced to scrubland. This is the world we have bequeathed to our children and grandchildren, theirs too. Few climate change deniers live in coastal areas, the impact is so visible. Without doubt climate change is the greatest danger facing Prince Edward Island today and it is difficult to see how it can survive it.