

VANISHING HALIFAX: AN INCONVENIENT TRUTH



In The Beginning

On June 21st 1749 British Governor Edward Cornwallis splashed his way through pristine shallows to land on the wooded slope of a large drumlin which today houses Halifax's downtown. Development followed; bawdy, boozy and boisterous, Halifax prospered most in times of war. Today, students have replaced the soldiers and sewage the pristine shallows; that apart the character of the City is little changed: it is a lively place in which to live and work. The centuries since have best left their mark in a legacy of stone, brick and timber buildings which jostle for space with high rise office and apartment towers on the slope below the ramparts of the Citadel, a star shaped fortress whose roots date back to Cornwallis' landfall. In the early 1970s peacetime prosperity found Halifax: concrete was king. A large interchange was constructed at the north end of the downtown and bold plans were created to cut a swath through the City's heart to construct Harbour Drive, a new highway which would sever the waterfront from the central business district in the same manner as Toronto's Gardiner Expressway. Centuries old buildings would be sacrificed: the City would

finally enter the twentieth century. Heritage groups mobilised, Harbour Drive was stillborn, signature neighbourhoods such as Historic Properties were rescued from the wrecker's ball, and the essential characteristic that today differentiates Halifax from urban dross, survived. Forty years later the interchange still stands, a dilapidated orphan little used, a monument to ignorance and outdated convention. It will be demolished when City Council musters the courage to make that decision. That initial battle however over what defines Halifax as Halifax, ignited a rancorous debate which erupts into flame every time a new high-rise building is proposed. The battle over Harbour Drive and Historic Properties laid a foundation of mistrust between those who want to preserve the past, the development community, and elected officials. It has been nurtured over the past thirty eight years by City Council dithering, ineptitude and lack of leadership.

Few now will question the wisdom of abandoning Harbour Drive and of saving Historic Properties. The latter and the waterfront, are defining features of the City. Yet in 1970, the few voices at first raised in protest were dismissed as the cries of cranks, individuals whose views were so circumscribed by the past they could not focus on the future. How many of us today would subscribe to that view? Yet that same tired argument is raised each time objections are raised to developments that threaten the next "Historic Properties". It is

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ironic that the survival of Historic Properties would never have been possible without the efforts of the two parties who are usually cast in the role of protagonists: the heritage groups and the developers... and a third party, City Council, who today assumes that its role should be one of referee, rather than facilitator; Nero fiddling while Rome burns. The most recent furor pits a developer with an exceptional track record of preserving heritage buildings against the group seeking to prevent their demolition. In a sense the paradox of Waterside Centre neatly captures the essence of the problem. The developer, Armour Group, owns a group of heritage buildings which are sandwiched between Historic Properties. They also own the waterside portion of Historic Properties on a long term ground lease. The block to be redeveloped comprises two and three storey buildings which have reached the end of their economic life: the status quo is no longer an option. Waterside Centre will rise phoenix like from their ashes, preserving their facades, and metaphorising into a nine storey office tower; an uneasy compromise in a heritage sensitive area. The embers of opposition immediately burst into flame. Heritage groups and concerned citizens mobilised in opposition to the project. Nova Scotia Business Inc. (NSBI) a provincial government agency charged with increasing employment waded into the conflict citing the lack of Grade A office space as being the major impediment to attracting financial firms from abroad; many of whom apparently wait frustrated at the City gates. Commercial real estate brokers dutifully pointed to the low vacancy rate. There has been virtually no new office development in the Central Business District since the 1980s: a problem widely attributed to obstructive heritage preservationists, grey haired geriatrics whose feet are firmly planted in the past. City Council responded by dithering, and then narrowly rejected the development application. The developer appealed the decision and won the appeal. The heritage groups ran out of cash and had to accept the decision. City Council too declined to continue, pinning its hope instead that future conflicts would be avoided by its proposed HRMbyDesign downtown plan.

In October 2008, exhibiting wisdom beyond its years, the Halifax Regional Municipality (HRM) retained our firm to

conduct a supply and demand study as part of its proposed HRMbyDesign plan for Halifax's Central Business District. Our report has now been released into the public domain: we are able to share the results of our research with you.

Mandate

In 2006 HRM Council initiated a Regional Centre Urban Design Study (HRMbyDesign) for Halifax's Central Business District including the Spring Garden Road commercial area. HRMbyDesign is now in its final stage and will proceed to a ratification vote of City Council in June 2009. If approved HRMbyDesign will alter building heights and density, and change the look and feel of the city. It is an exciting plan which attempts to introduce some flexibility into the development process whilst reducing uncertainty. Design rules will replace some of the present approval process: there will be less opportunity for public participation and therein lies the rub. Heritage groups mistrustful of the present process view HRMbyDesign as an attempt to neutralise their opposition to development which threatens historic buildings. They will no longer participate in the planning process. Some developers, and government or quasi-government agencies such as the Greater Halifax Partnership and Nova Scotia Business Inc. (NSBI) have voiced concern that HRMbyDesign will unduly restrict development and hamper their efforts to accommodate the fleet of financial firms anxiously anchored at the mouth of the harbour.

We were asked to research development over the past twenty five years and to project it forward over the same period using Low, Medium and High growth scenarios. We then had to determine whether this demand could be accommodated within the supply constraints imposed by HRMbyDesign. Finally, we had to establish benchmarks against which the HRMbyDesign plan, if implemented, could be measured. It would obviously have been more timely to conduct these economic exercises as part of the process of formulating HRMbyDesign, rather than waiting until it was complete. Whatever the results of our research, they were unlikely to be received with enthusiasm by all, if any, of the stakeholders... but we are simple souls so donning hard

hats we went to work.

Modus Operandi

Our study reviewed office, retail, hotel, residential (rented and owned), institutional and parking garage development and compared the inventory in 1983 with 2008 to calculate demand over those twenty five years. Potential supply over the next twenty five years under the HRMbyDesign plan was calculated using our Geographic Information System. Sites had to meet two constraints. **Firstly** they had to be large enough to support the minimum floor plate required of new development. **Secondly** they had to be available, during the next twenty five years, at a price which made development affordable. Existing buildings which had a value well in excess of the land they occupied (usually because of their size, age or condition) would be unlikely candidates for redevelopment. We built an economic development algorithm and used our GIS to identify development sites and select the properties that met the size criteria.

Research Results

This is what we discovered:

(1) HRMbyDesign's built form rules will easily accommodate the demand envisaged over the next twenty five years under our Low, Medium and High Growth Scenarios. Indeed, since our demand projections were based on the past twenty five years, and we now have a declining working age population, it is possible that they are optimistic.

(2) For the past twenty five years *Downtown Halifax has declined as a business centre and we project that this process will continue*. The Downtown is turning into a place to "stay and play": hotel and residential (rental and condominium) development increasingly dominate activity in the area. The provincial government agency NSBI has been very vocal about the number of jobs they have brought to the Central Business District and have painted a picture of Halifax as a burgeoning financial centre. The concept has been accepted and espoused by the Premier and the Mayor. We were unable to verify NSBI's figures or establish a trend line because they would only provide them in aggregate over a three year period. However we do

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know that the 1,300 jobs NSBI claim to have created in the study area have not increased demand for office space. It is possible they may have increased demand in the suburbs by displacing existing tenants from the study area. We believe that the trend for office tenants to relocate to the suburbs was triggered by the 1990 recession which produced a sea change in the way business operated. The latter was given impetus by the improvement in communications (cell phones, world wide web, virtual private networks, webinars, etc.), and their falling cost, coupled with outsourcing and a more Calvinistic attitude to office accommodation (flash was out, function was in). Accessibility, free parking and larger floor plates in the suburbs have robbed downtown office space of much of the rental premium it used to command over locations elsewhere.

(3) It is red herring to suggest that the lack of downtown office development since the 1980s is the result of opposition from heritage groups. Admittedly anything that increases cost retards development, but their efforts have not constrained office growth to any measurable degree. The harsh reality is that demand no longer exists to warrant development and as a result tenants are unwilling to pay the rents necessary to spur new projects at prices which reflect the developer's current opportunity cost. The net absolute rental rates today per ft.² are little different from what they were in 1989. They would have to increase by 50% to achieve the latter level in today's dollars ... and by 25% to 50% to stimulate new development. Whilst the vacancy rate for Downtown office is at an historic low (2.06% in December 2008), this is reflective of the "bargain" rental rates. During the 1980s, rents rose gradually as the vacancy rate fell below 8% and sharply (40% per annum) when the 4% vacancy rate was breached. We could find no recent evidence of large rental increases nor could we find support for the assertion that there is large pent-up demand (a figure of 2.0 million ft.² had been quoted in the media). Nor were we able to locate much evidence of the substantial out of province demand so widely quoted by NSBI. Based on our conversations with property owners, developers, and brokers, active in Downtown Halifax, and information provided by NSBI, we calculate that such demand is probably in the region of 50,000 ft.².

(4) Public ownership, especially by the Province of Nova Scotia either directly, or through the Waterfront Development Corporation, has been a major impediment to the growth of Downtown Halifax. Prime land is utilised only for parking and has been released for development in a leisurely fashion, or not at all. The lands fronting Halifax Harbour, the site at the foot of Sackville Street, and the former Halifax Infirmary property, are glaring examples of Provincial properties which, had they been in private ownership, would have been developed long ago. HRM too continues to own property, whose underutilization sterilizes and retards the growth of the area. Examples include a prime site on Barrington Street (opposite Grand Parade) recently conveyed to the Province, and the parking lots at the rear of Spring Garden Road. The latter were identified as development sites 38 years ago.

(5) A key driver of demand for all types of space in Downtown Halifax is its unique character ... which in turn is defined in large part by the heritage buildings and their relationship with the harbour. The environment thus created is Downtown Halifax's major competitive advantage which, once destroyed will never be reincarnated. However it is an economic reality that most heritage buildings are not the highest and best use for their site. *The gulf between the property owner's pressing need to maximise the value of their site, and broader community goal of preserving those buildings to secure the longer term economic and social value of Downtown Halifax, will not be resolved by the present debate; HRMbyDesign will not solve the problem.* This is an economic, rather than a rhetorical or planning issue; our calculations determined that demand could be satisfied for most of the next twenty five years without demolishing heritage buildings. However that is not going to occur unless HRM Council takes a pro-active role.

Going Critical

Downtown areas in cities perform two critical economic functions which are commonly ignored: (1) They generate the greatest property tax revenue per acre and, (2) they define the character of the city and often the region.

We estimate that Downtown Halifax generates about 12% of HRM's property

tax revenue. Since HRM does not calculate its budgets by geographic area it cannot use return on investment (ROI) as the criteria for allocating resources. It is not unique in this regard but any business run along similar lines would not survive: it would be unable to deploy resources in an optional fashion.

The "character" of a city is important because it attracts or repels its "clients"; tourists and the people who live and work there. The importance of tourism as a wealth generator is self evident. The advantage of attracting a diverse, entrepreneurial, creative workforce has only recently been highlighted by Dr. Richard Florida's research into cities and the creative class. The freedom of the Creative Class to settle in cities that best suit their life style is increasingly a feature of today's information driven economy. Dr. Florida cites quality of place as critical *"along with street level culture—the teeming blend of cafes, galleries, small music venues, and the like."* Whilst the geographic setting of the downtown can contribute to its character as does Halifax's harbour, the vibrancy, human scale, intimacy and diversity of streetscape are the major contributors to a lively street level culture. Heritage buildings provide a unique contribution to this environment. Therefore it is in the community's best interests, economic as well as social, that they protect and nurture the Downtown's built heritage. The current divisive debate over what should prevail, heritage or high rise, completely misses the point. Without the former, the Creative Class would be lacking to support the latter. In our view HRMbyDesign, whilst an excellent blueprint, is worthless unless City Council exhibits leadership and enacts a strategy to promote heritage restoration and conservation. This strategy should focus on encouraging ownership and renovation of heritage buildings by making it economically advantageous to do so. It should **not** rely on public grants; they are always insufficient, are frequently misdirected, and are never sustainable. Nor should it penalize owners of heritage properties by imposing restrictions on demolition ... this simply renders ownership unattractive. *Our study proposed a system of transferable air rights. This would not involve public funds, but would rely instead on market forces. Its objective would be to render demolition unnecessary by liberating the redevelopment potential of the site so that*

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it could be sold for use elsewhere. This solution does not entirely address the issue of buildings which require extensive renovation, the cost of which cannot be justified from a financial perspective. *Realty taxes are a property owner's single largest expense, after their mortgage payment. The increase in realty taxes that results from restoration frequently renders the process financially impracticable. We proposed therefore that HRM freeze the realty taxes (or the assessment) at the property's pre-renovation level to encourage restoration.* Based on the feedback received so far, we have little confidence that these policies will be considered. However without an economic strategy to encourage heritage building retention and restoration Downtown Halifax will continue its sad decline ... and that is something which should trouble us all, whether we live here or not.

VALUATION DIVISION



Nigel Turner, B. Comm., AACI

We are pleased to announce the appointment of Nigel Turner as Manager of our Valuation Division. Nigel joined us in 2002 after graduating with a Bachelor of Commerce degree from Saint Mary's University. He was granted a Diploma in Urban Land Economics from the University of British Columbia in 2007 and is currently completing their

Bachelor of Business in Real Estate degree. Nigel gained accreditation with the Appraisal Institute of Canada in 2008.

He was heavily involved in the expansion and integration of our Compuval™ family of intelligent databases. Nigel joined us initially to launch our photographic database. Since then, in concert with our programmer, he has implemented and tested several new databases, including our Market Survey database which captures information on office and warehouse space. He is currently incorporating GPS into the inspection of forest and recreational property.

Nigel was formerly Manager of our Lasercad™ Division. He has extensive experience too in our Property Tax and Valuation Divisions and has undertaken assignments throughout Atlantic Canada.

In his spare time Nigel delights in tearing apart and rebuilding his automobile: a necessary skill apparently for Volkswagen owners.

Our Valuation Division provides valuation services on all types of investment, commercial and industrial property, as well as raw acreage, subdivisions, islands, recreation and forestry land, throughout Atlantic Canada. The Division has provided valuation services

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countrywide on heavy industrial and specialty property such as airport facilities.

We are the only real estate consulting company in the region, and one of only a few in Canada, registered to the international ISO 9001:2008 quality standard. We survey every client for whom we have undertaken an assignment during the previous six months, on a semi-annual basis, to measure customer satisfaction. We publish all of the results on our web site www.turnerdrake.com (Splash Page → Quality Ratings). Check them out! We are the only valuation firm in Atlantic Canada working to the North American Uniform Standards of Professional Appraisal Practice (USPAP).

Sales information is not readily available in the Atlantic Provinces: this is unique to this region. Since 1978 we have developed a proprietary system of intelligent databases Compuval™, to capture and analyse sales transactions, assessment data and rental information. Compuval™'s databases talk to each other ... and extend across the Internet to drill down into the provincial Property On Line systems. They sit on a Geographic Information System (GIS) platform and this allows us to access property specific information and overlay it onto street and topographic maps, satellite imagery, aerial photographs and Property On Line parcel identification maps. Compuval™ even has its own Internet real estate specific search engine. We have recently added four terabytes of hard disk storage to our production server to accommodate this explosion of information. Wherever your property is located in Atlantic Canada,, we have you covered.

If you require a property valuation for capital gains tax, company merger or bankruptcy, estate settlement, expropriation, fire insurance, financing, sale, purchase, rental advice or balance sheet (to comply with the International Financial Reporting Standards) call Rick Escott our Vice President Valuation, or Nigel Turner, at 1-800-567-3033 (429-1811 in HRM).

PROPERTY TAX DIVISION

Prince Edward Island

President Obama and Prime Minister Harper have both spotted "the green shoots of a recovery". They may have confused them with Spring: it happens each year about now ... and Spring may well be the only green shoots the rest of us see this year. From our vantage point the impact of the recession is just starting to bite. We expect it to roll across the Atlantic region for the next eighteen months before it bottoms out and the long slow road to recovery begins. When we do emerge it will be into a different world. However every cloud has a silver lining. During the 1990 recession and its aftermath we were able to negotiate major realty assessment reductions with the Prince Edward Island Assessment Department. Those reductions (up to 50%) carried forward for several years. We believe a similar opportunity exists today to reduce your property tax load.

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