

Real Estate Market Overview

Kirkland Balsom & Associates

"Helping you make intelligent real estate decisions"



St. John's

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RESIDENTIAL MARKET - 2008 Growth but by how much?

The estimations for growth may vary; nevertheless, the consensus with most local real estate players is that 2008 will be a robust year for residential real estate. Private real estate companies are predicting double digit increases while CHMC projects an increase of 7.6%. Increased job growth, higher personal incomes and continued relatively low interest rates will drive the residential real estate market in 2008. Condominium activity appears to have seen the most growth with an increase in sales activity of approximately 40% from 2006 to 2007. This increase is attributed to a growing demand due to demographics and several new condominium developments offered to the market. While purchasing a condominium for owner occupancy appears to be a wise decision, given the

current attainable rents, purchasing as a pure investment is less attractive.

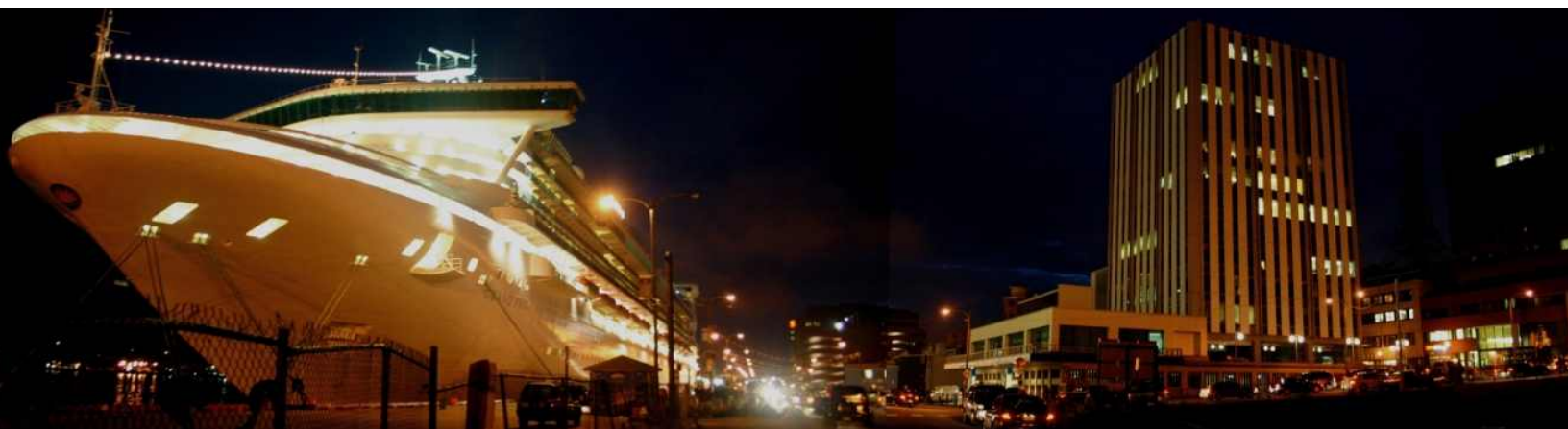
Newfoundland and Labrador and a consortium led by Chevron have signed a multibillion-dollar memorandum of understanding to develop the Hebron offshore oilfield project in August 2007. Since the announcement the real estate market has spiked with tremendous optimism from buyers betting on increased values in coming years. This "need to buy now" mindset has spurred multiple offers on properties, often at above perceived market value. While demand increases it is even more important not to overpay or offer your property to the market without professional and independent advice.

RETAIL SECTOR - Power Centres Dominate

Big Box retail appears to be entrenched as the preferred retail format with three regional Power Centre developments now complete. Its expansion and growth over the past decade has been, to a certain extent, at the expense of the regional and neighbourhood malls. Zeller's closure effectively dealt the final retail blow to the Sobey's or Mount Pearl Square which has since been substantially reformatted for call center use. It remains to be seen if the Village Mall can survive Sears' recent exodus. The Avalon Mall continues to buck these trends with close to 100% occupancy including the recent addition of Sears

in the former Wal-Mart space.

Buoyed by a strengthening economy, year over year retail sales continue to increase with year-end 2007 figures anticipated to reflect a close to 10 % gain over 2006. Next years sales are projected to soften somewhat with the economy; however, near-term trends remain promising. These trends have attracted investor attention and produced several acquisitions by national players, including a 16 million dollar property sale involving four box stores in northeast St. John's.



OFFICE MARKET - Mixed Bag of Tricks

The combined impact of a strong local economy and a relatively strong real estate market has lured investors to the office market over the past number of years. This trend is not only prevalent in Metro St. John's, but also in other markets across the country.

In spite of considerable demand, limited new supply has been added to the market. Net effective rents remain insufficient to justify new construction. While office rents in Class A and B space have increased slightly, C space remains stable.

The required return on investment (cap rates) for Class A buildings has fallen in recent years due to limited supply and an increased appetite from competitive buyers. Class B buildings have also seen increased demand from national/international buyers given the limited supply of Class A buildings in our market. Class C buildings are mostly being purchased for owner occupancy at prices ranging from \$60 to \$100 per square foot; well below replacement cost.

LIGHT INDUSTRIAL SECTOR - Stable growth

Perhaps the most active in the region, the light industrial sector saw a significant increase in construction activity through 2007. Much of this activity has occurred in two recently introduced industrial developments off Kenmount Road and McNamara Drive. Initiated in 2006 at lower price points than nearby Donovans, both developments have experienced steady absorption and significant price increases over the past two years. The Kenmount Road Park will likely be completed in 2008; however, with service expansion, there is ample supply in the McNamara Drive area of Paradise to meet the region's light industrial needs for decades.

Light industrial occupancy and rental rates remain strong throughout the region. Not surprisingly, 2007 produced a record

number of improved light industrial property sales. Several of these transactions involved local investors attracted by cap rates 1-2% higher than the competing office and retail sectors.

Business confidence was boosted in the last quarter of 2007 by a memorandum of understanding to develop the Hebron-Ben Nevis oil field. Further potential exists for light industrial expansion over the next five years to service the Inco refining and smelting facility, a proposed oil refinery for Placentia Bay some 55 miles west of Mount Pearl. Much of the service and supply companies are expected to function out of Mount Pearl and Paradise. Current commitments suggest a construction start date in 2009 and production by 2012.

Meet Our Team

Experienced, accredited appraisers providing sound, intelligent real estate valuation and advisory services.



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MULTI-RESIDENTIAL SECTOR - Strong Demand, No Supply

The year 2007 produced a year-over-year decline in apartment vacancy of approximately 50% pushing occupancy levels to 97.4%, the highest since 2003. These factors, combined with the lack of new inventory and a promising economy, have investors scrambling for opportunities. Local investors find it difficult to compete with large national players like Killam Properties and Northern Properties who now dominate regional markets. Very few properties have been offered with only one substantial (30 units) transaction recorded. Interestingly, this property was purchased for condo conversion opposed to continued cash flow through rental

and a factor which will further reduce apartment inventories. In spite of these trends rental rates continue to show only nominal increases and remain below levels necessary to justify new construction.

Market activity has been fierce in the small scale 2-6 unit projects and entry level investors compete for limited supply. Prices have increased substantially with much of the activity driven by out-of-province investors anticipating growth from enhanced employment and economic spin-off. Given the likelihood of lower interest rates in 2008 this trend is expected to continue.

MUNICIPAL ASSESSMENTS - In Between Base Dates

2008 is the second year of the three year tax cycle that ends in 2009. January 1, 2008 will be the new base date for the 2010-2012 tax cycle. The opportunity to appeal the 2009 assessment will be available to all ratepayers sometime this year. There are only 30 days to appeal. The base date of the current valuation was January 1, 2005.

Although each year municipal taxpayers receive a notice of assessment, the valuation typically only changes every three years. Assessed values are based on the estimated market value by a

municipal tax assessor, as of the base date. Since the real estate market has improved significantly over the past three years in most sectors, be prepared for a higher municipal tax bite in 2010. We recommend caution in providing only appropriate information, if asked, to the assessor and being proactive in having the assessment reviewed by our experienced advisors.

ARA Kirkland, Balsom & Associates. Further information; contact us at www.kba.ca, or call (709) 738-1000.

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Real estate appraisers, consultants and advisors serving Nova Scotia, New Brunswick, Newfoundland and Prince Edward Island

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Our team of 25 experienced and qualified personnel have a reputation for providing sound professional advice encompassing a broad range of property types including: office, retail, light industrial and residential, as well as numerous special purpose projects. We bring together considerable expertise and resources, not the least of which is a continuously updated database of market activity throughout Atlantic Canada.

Specific areas of expertise include:

- Commercial (i.e. purchase/sale, financing, etc.)
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- Insurance Analysis/Valuation
- Highest and Best Use analysis
- Injurious Affection analysis
- Site Selection and analysis
- Confidential client advice on negotiating purchase/sale/leasing
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