

# Real Estate Market Overview 2009

## Kirkland Balsom & Associates

*"Helping you make intelligent real estate decisions"*



### MUNICIPAL ASSESSMENTS - A Year to Take Action

The coming year is critical for all rate payers, owners and tenants, to have their notices of assessments professionally reviewed. This year's notices will set the assessed value for properties you own or occupy for the 2010, 2011 and 2012 tax years. Assessment appeals made this year can affect the amount of

tax payable in three future tax years. Consequently, all rate payers should be sure to have their Assessment Notices professionally reviewed by a qualified real estate appraiser/advisor. The notices are anticipated to be mailed during the second half of 2009 and include a 30 day appeal deadline.

### Have Your Assessed Value Reviewed

The assessed value for tax year 2010 will be based in most cases on the estimated market value of the property as of January 1, 2008. As most property market values have increased since the last base date, ratepayers can expect their assessed values to increase. The key questions to ask are as follows:

1. Is the value assigned to my property above market value as of January 1, 2008?

2. Is the value assigned fair when compared to similar properties?

We can help you answer the above questions. For some 20 years we have been successful in obtaining fair municipal tax treatment for local and national clients throughout the province. Through this process our clients have added thousands of dollars to their bottom lines.

### RESIDENTIAL MARKET - WOW!

Looking back a simple question sums up the 2008 residential market: *Who would have guessed?* While expectations were positive, few would have predicted last years' 20-25 percent market gains in most neighbourhoods. A number of factors came together to create the most robust market conditions ever experienced in the St. John's region. With both consumer and business confidence at a high level, buyers appeared to be falling over each other. A tight skilled trades market and ballooning land values pushed construction costs to record highs. Capital was flowing freely with zero-down payment and 40 year mortgages mushrooming affordability. Alberta dollars were abundant throughout the region as transient workers hedged their bets against a future "Fort-Mac" market. Multiple offers were common place with selling price routinely exceeding the list price. Through to the last quarter of 2008 it is perhaps a little scary that the province had the only growth market in North America.

*In terms of the coming year*, there is to say the least, an air of uncertainty. Global financial problems have taken the "feel-good factor" out of personal worth. Further financial grief is expected in

2009 and it is unlikely that we will escape the adverse spin-off job losses and credit tightening. The shelving of oil related projects in Alberta will lessen this segments influence on the local market. With down payments now required and 40-year mortgages eliminated, entry level sales activity will slow.

On a positive note, the Hebron and Vale Inco construction projects appear to be proceeding. While labour requirements will not peak for 2-3 years, these projects will continue to enhance business and consumer confidence. In addition, the recent civil servant wage increases will have a positive impact as collectively this group has significant influence on the local economy. Finally, the Alberta oil-patch slow down is expected to bring some relief to the skilled labour market as displaced workers seek local employment opportunities.

From a forecasting standpoint, 2009 will likely see fewer transactions primarily due to tight-supply conditions in the first half of the year. Barring cancellation of the resource based construction projects; continued demand is expected to boost residential property values in the range of 5-7 percent.



## OFFICE MARKET - New Supply "Finally"

It appears that there will be new building construction for downtown St. John's in 2009. With Class A space at effective full occupancy and lease renewal rates increasing, Johnson Insurance, a national insurance company which maintains its head office in St. John's, has opted to build their new head office on the former Horwood Lumber site. Plans for this new building are in the early stages; however, conceptually the building could be upwards of 8 storeys and contain an estimated 140,000 square feet. This will be the first building construction downtown in over two decades. Upon completion of their new head office, Johnson's existing office space throughout the city (estimated to be 90,000 square feet) will significantly increase the Class B and C sub-market supply. Given the timeline of at least two years before the new building is ready, it will be sometime before this supply enters the market.

Strengthening demand for space and a tightening supply have produced the strongest office market in recent history. Outside of private market growth, the provincial government has emerged as a major tenant and contributed significantly to space absorption over the past two years. Not surprisingly these conditions have lured local and national investors to the office market in recent years.

Little change is anticipated in 2009. A lower vacancy rate should continue to put upward pressure on rents. Barring cancellation of one of the resource based projects, further demand is anticipated. From an investment standpoint; however, tightening global credit markets in the coming year are expected to influence the supply of capital. In turn, capitalization rates will likely increase and limit property value appreciation.

## LIGHT INDUSTRIAL SECTOR - Stable growth

The light industrial sector remains one of the most active in the region. Much of this past years activity was generated by local business expansion or repositioning in anticipation of near long term economic growth. Donovans Industrial Park, the regions center of light industrial construction activity since the mid-1970s is "sold-out" of vacant land. The nearby Kenmount Business Park has also seen healthy land absorption and price increases during 2008. While a limited supply of land remains in Kenmount Park, the McNamara Drive area of Paradise has ample light industrial land to meet the

regions foreseeable near term light industrial needs.

Occupancy levels while down marginally over 2008 remain stable and rental rates have levelled off. Investor interest remains strong with capitalization rates 1-2 percent higher than similar markets producing comparatively strong investment returns. Weakening global demand for materials, lower transportation (fuel) costs and improved skilled labour supply should curb construction costs in 2009.

### Meet Our Team

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



Jerry Kirkland AACI, P.App, Fellow



Bill Balsom AACI, P.App.



John Bishop CRA



Wayne Roche CRA



Michael Kirkland BBA, AACI, P.App.

## MULTI-RESIDENTIAL/CONDOMINIUM SECTOR - Effective Full Occupancy

Increased economic activity and job opportunities throughout 2008 have pushed residential apartment vacancy rates to less than 1 percent. Rental rates increased an average of 5 percent; however, remain below levels sufficient to warrant new construction. With no significant supply entering the market in over 25 years further rent increases are imminent.

Not surprisingly in light of these trends, investor interest remains strong. No substantial sales have been recorded over the past two years and there are currently no properties offered. Given the inherent demand expect the next sales to produce record low capitalization rates.

Market activity remains strong in the small scale 2-6 unit projects as entry level investors compete for limited supply. Prices continue to strengthen with much of the activity driven by out-of-

province investors anticipating growth from enhanced employment and economic spin-off. This trend is expected to continue through 2009.

Water taxes in St. John's will increase by \$80 per unit in 2009 to a rate of \$520 per year. This combined with the increase in assessed values anticipated for 2010 could make the multi-unit properties less attractive to investors.

There is an increasing trend towards investors purchasing older apartment buildings and converting them to condominiums. This trend is expected to continue, especially in the entry market/first time buyer price range. Finally, higher priced condominiums are expected to grow in demand with the aging population in the greater St. John's region.

## RETAIL SECTOR - Bucking National Trends

Year-end numbers for 2008 are not yet available; however, local retail sales appear to be bucking national and international trends with an estimated 9 percent increase in annual sales anticipated. Occupancy rates in the three regional Power Centres and Avalon Mall exceed 98 percent. Rental rates at these centres remain strong with slight increases reported on renewals. The Village Mall has boosted occupancy by finding a replacement tenant for the former Sears space and a portion of the former Wal-Mart space.

In spite of its local strengths it is unlikely that the region's retail will escape the effects of the global economic downturn and weakening sale figures are predicted. Look for higher vacancy rates in late 2009, as some of the fringe retailers restructure, consolidate or close. National financial issues will tighten credit markets for retail sector investors, put upward pressure on capitalization and thus weaken property values.

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21 Mews Place, St. John's, NL A1B 4N2

Phone: 709.738.1000 Fax: 709.738.0152 E-mail: info@kba.ca





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

To better serve our regional client base, six of Atlantic Canada's most prominent, independent, real estate advisory and appraisal firms, have formed a regional company known as Atlantic Realty Advisors Inc. With offices in Woodstock, St John's, Halifax, Fredericton, Moncton and Charlottetown, we are strategically positioned to provide specialized real estate advice to clients throughout the region.

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.)
- Municipal Assessment Reviews/Appeals
- Insurance Analysis/Valuation
- Highest and Best Use analysis
- Injurious Affection analysis
- Site Selection and analysis
- Confidential client advice on negotiating purchase/sale/leasing
- Rental analysis
- Capital gains issues
- Expropriation/arbitration
- Expert testimony
- Appraisal review
- Asset management
- Feasibility Studies
- Estate Settlement

 <p><b>ARA Babineau Appraisals</b> Moncton   New Brunswick</p>	 <p><b>ARA Fredericton Appraisal</b> Fredericton   New Brunswick</p>	 <p><b>ARA Ingram Varner</b> Halifax   Nova Scotia</p>
 <p><b>ARA Kirkland Balsom</b> St. John's   Newfoundland</p>	 <p><b>ARA Leech Appraisals</b> Woodstock   New Brunswick</p>	 <p><b>ARA McQuaid McEwen</b> Charlottetown   Prince Edward Island</p>