



Study Prepared For:

**Strategic Urban Partnership (SUP) Taxation Working Group
c/o Halifax Regional Municipality
P.O. Box 1749
5251 Duke Street, Third Floor**

Prepared By:

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**Phase I
Study of Commercial Taxes as a
Driver for Business Location
Decisions**

Effective July 1, 2012

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Project No. 100007R

Strategic Urban Partnership (SUP) Taxation Working Group
c/o Halifax Regional Municipality
5251 Duke Street, Third Floor
P.O. Box 1749
Halifax, Nova Scotia
B3J 3A5

Attention: Andre MacNeil, P.Eng., MBA, CMA
Senior Financial Consultant, Finance and IT

Dear Sir:

Re: Study of Commercial Taxes as a Driver for Business Location Decisions
Phase I

As detailed in the Terms of Reference received by email on May 1, 2012 and in our proposal dated May 3, 2012, the background to this study is:

"It appears that commercial tenants are leaving the downtowns of Halifax-Dartmouth and the regional center, and new ones are not arriving in sufficient numbers. Are commercial taxes, as a component of business costs, discouraging retail or office tenants from locating in the Regional Center? Are there changes to the current system of commercial taxation (Municipal and/or Provincial) that could contribute to the revitalization of Downtown Halifax, Downtown Dartmouth and the Regional Centre? This project has developed through initiatives of both the Strategic Urban Partnership and HRM's Central Plan Project".

Phase I of the study is to identify the factors influencing the location decisions of business owners and managers in HRM, particularly in the office and retail sectors and identifying the recent movement growth and/or decline in businesses in:

- Downtown Halifax
- Downtown Dartmouth
- Other parts of the Regional Centre

In carrying out this study, we have investigated the impact of commercial taxation and other "drivers" of business location decisions by conducting interviews with HRM business owners and managers in the relevant areas of HRM to this study. Through our analysis we have been able to provide a conclusion regarding the impact of the current commercial taxes on the local decisions of businesses together with a review of other factors not related to taxation.

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Phase II of the project is not covered in this document and is to deal with:

- Relevant initiatives to address the important factors identified in Phase I and recommendations for further study.
- Recommendations on possible changes to commercial taxation that could lead to increased economic activity and vibrancy within the Regional Center, for further discussion by the SUP and used by the RP+5 Project.

This consulting report provides a summary of our research, investigation, findings and conclusions and must be read as a whole as sections taken out of context could be misleading. The report is subject to the Assumptions and Limiting Conditions outlined in the report and is effective as of the July 1, 2012.

If you have any questions, please do not hesitate to contact either Robert Santilli or Charles Hardy.

Thank you for the opportunity to be of service.

Respectfully submitted,

Altus Group Limited

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EXECUTIVE SUMMARY

- We have contacted 300+ office and retail tenants located throughout suburban and downtown areas of HRM for participation in our study. Downtown areas of HRM include the Halifax Central Business District and surrounding areas, Quinpool Road, Agricola Street, the Spring Garden Road area and Downtown Dartmouth. The remaining areas of urbanized HRM are identified as suburban.
- We have conducted approximately 100 tenant interviews with office and retail tenants within suburban and downtown locations. We have further interviewed a number of leading office and retail property owners, managers, leasing agents, local business persons and property developers.
- Tenants were asked to explain and score what factors contributed to their decision to locate in either a suburban or downtown location. The real estate professionals interviewed were asked to comment on their experiences in the retail and office market as well as explain and score what factors contribute to business location decisions.
- Suburban office tenants consistently rated parking availability and parking cost as the most significant factors contributing to their business decision to locate in the suburbs. These factors equated to an average score of 4.6 and 4.5 on a scale of 1.0 to 5.0 (where a score of 5.0 represents the strongest considerations). The lowest ranked considerations were proximity to general retail and green building initiatives (1.9 and 1.9). Property tax as a consideration was ranked 8th of 16 scored factors with an average score of 3.1. The responses of the tenants were generally supported by the interviews with real estate professionals.
- Downtown office tenants consistently rated employer preference and image/profile and perception as the most significant considerations at 4.1 and 4.0. Similar to suburban office tenants, green initiatives and proximity to general retail were rated as the lowest considerations at 1.9. Property tax as a consideration was ranked 13th out of the 17 factors with a score of 2.2. The responses of the tenants were generally supported by the interviews with real estate professionals.
- The interview process indicated that there are generally two profiles for HRM office tenants: those who choose to locate in the suburbs for lower overall costs (particularly the free and increased availability parking) as well as for employee lifestyle/accommodation reasons, and

those tenants who prefer to locate in downtown areas for business reasons including servicing clients and company image.

- Property taxes per square foot were estimated for HRM office buildings and compared between the suburbs and downtown. A premium in downtown Class A space over suburban Class A space was evident. However, a discernible premium between downtown and suburban Class B/C space was not observed.
- Suburban retail tenants consistently responded that parking availability was the most significant location consideration with an average score of 4.4, with the cost of parking as the second most significant consideration (3.9). The lowest considerations were green initiatives and employee preference with scores of 1.6 and 1.9 respectively. Property taxes were ranked as the 9th most significant consideration out of 17 factors, with an average score of 2.9. These views were generally supported by discussions with real estate professionals.
- Downtown retail tenants consistently responded that proximity to clients and image / profile and perception were the most significant considerations with scores of 4.5 and 4.3. The least considered factors were green initiatives and parking cost, at 1.4 and 1.6 respectively. Property taxes were ranked 13th out of 17 factors with a score of 2.1. These views were generally supported by discussions with the real estate professionals.
- The interview process indicated that downtown retailers are generally positioned to either service a niche market, which may be seasonal in nature or come from all areas of HRM, and to service the surrounding community. Suburban retailers generally located where parking is available and are clustered with complimentary stores and shops in order to benefit from the draw of shoppers.
- Based on the interview responses and data collected it is indicated that property taxes are not one of the most significant considerations for office or retail tenants when determining where to locate within HRM.
- The most significant considerations for suburban office tenants were parking cost, parking availability and commute time (top three factors). Downtown office tenants are most concerned with preferences of the employer and company image, profile and perception.
- The most significant considerations for suburban retail tenants were the availability and cost of parking. Downtown retailers placed most significance on proximity to clients/customers and image/profile and perception of their location.



INTRODUCTION

Purpose

The purpose of this study is to investigate the impact of commercial taxation and other “drivers” of business location decisions and determine the reasons why commercial office and retail tenants choose to locate in suburban areas rather than the downtown of HRM.

Function of the Report

The report is required in connection with strategic planning initiatives by The Strategic Urban Partnership and HRM.

Effective Date

July 1, 2012.

Methodology and Scope

Phase I

We have identified and conducted interviews with the following parties:

- Property owners
- Property managers
- Office and retail tenants
- Tenants that have located within downtown locations
- Tenants that have located outside of the downtown
- Tenants that have renewed in both areas
- Developers
- Leasing agents
- Local business persons

The person to be interviewed was the decision maker or other individual with knowledge of the decision making process.

Tenant, leasing agent and property owner/manager interviews included discussions of factors contributing to location decisions.

Developer/builder interviews included discussion of land development factors in downtown and suburban areas.

Confidentiality

The interviews conducted as part of this assignment have been completed on a confidential basis. A discussion of our overall findings has been included within this report. Individual interview responses will not be made available.

Geographical Boundaries

The Regional Centre of HRM is the urban core and economic centre of the Municipality. The area includes Halifax Peninsula and that area of Dartmouth inside the Circumferential Highway as approximately indicated in blue on the map below. Downtown areas are highlighted in yellow on the map below and are included within the Regional Centre. The Regional Centre therefore includes both 'Downtown' and 'Suburban' areas as defined by this study and provides businesses the option of both when choosing where to locate. Downtown areas of the Regional Centre are comprised of those areas considered to be more pedestrian oriented compared with the more vehicular oriented suburban areas. Downtown areas of HRM include Downtown Halifax, Downtown Dartmouth, Spring Garden Road, Agricola Street and Quinpool Road. All other areas of HRM are identified as suburban.

Geographical Boundaries





Market Overview

In order to properly understand the dynamics of the HRM office and retail markets, it is necessary to discuss changes in tenant profile over time as well as demographics within suburban and downtown areas. The Halifax, Dartmouth, Bedford and Sackville office market consists of over ten million square feet spread out over downtown and suburban buildings. The proportion downtown is estimated at just fewer than 50% and this number is known to be decreasing given new supply in suburban areas and minimal development in downtown locations. The percentage of retail space located in downtown areas is considerably less.

Changes in Tenant Profile

Peninsula Halifax has experienced a decline in population since the 1980's. This shift toward more suburban living and working was brought about by a number of factors including expanded suburban communities which offered more affordable housing and ultimately resulted in a resident Halifax Peninsula population that is generally older than most other areas of HRM.

At the same time, the presence and growth of Dalhousie University, St. Mary's University, the Nova Scotia College of Art and Design and Kings College has resulted in a significant student population on Halifax Peninsula which fluctuates with the academic calendar. These demographic shifts have played a significant part in shaping development in HRM and are important location decision factors for many office and retail tenants.

Office

The tenant profile of HRM's office buildings has changed considerably over the previous 20 years; a timeline that starts with the economic recession of the early 1990's and coincides with the last major office project constructed in the central business district. The economic environment of the 1990's, coupled with a shift in lifestyle and corporate choices made by employees and businesses, has redefined the profile of suburban and downtown tenants.

During the 1980's and up until the early 1990's Halifax was home to a number of head office and regional head office locations. A number of office buildings within the Halifax Downtown and surrounding peninsula areas accommodated the offices of these large institutions. These buildings included 1801 Hollis Street, originally home to the head offices of Central Guaranty Trust, 1819 Granville Street (head offices of Prenor Trust), and the Maritime Life Business Campus (head offices of Maritime Life). The first two institutions encountered financial difficulties in the early 1990's with their assets subsequently acquired. Maritime Life was acquired in 2004 and continues operation

under a new name although the Halifax location is no longer home to the company's head offices and consists of many back office and clerical positions.

Merrill Lynch (purchased by Bank of America in 2009), Confederation Life (liquidated in 1994) and other financial institutions used to have regional presences in the Halifax Downtown before consolidation in other major centers or termination of business. The head offices of National Sea (now High Liner) used to occupy a number of floors in the Purdy's Wharf complex before the company moved its considerably downsized head offices to Lunenburg.

In addition to a larger head office presence from the private sector, government departments, agencies and crown corporations also historically occupied more prominent office space, with Canada Post taking a number of floors in the (then) recently constructed Purdy's Wharf office complex before relocating to a downsized office presence at its Almon Street facility.

It is important to note that a number of large institutions still have regional office locations in Halifax; these include the major banks, accounting firms and regional law firms, which are attracted by the prestige of a downtown address. Nonetheless the departure of a number of head office locations left much vacant space, some of which was backfilled at discounted rent by smaller tenants.

The recent announcement and construction start of the RBC Waterside Centre in the Central Business District provides an example of a prominent and longstanding downtown tenant downsizing space requirements with Royal Bank of Canada planning a move in mid-to-late 2014 from its current location on George Street, where it occupies +/-75,000 square feet, to the reportedly significantly smaller premises on Lower Water Street. More efficient use of space and a relocation of certain functions either to other parts of HRM or to other cities means a smaller presence in the downtown.

In addition to the above factors, the technological age has created interconnectivity that was never possible before. Prior to emails and mobile phones, couriers, fax machines and personal visits were common place. Today it is not necessary for a bank retail branch to be located in the same building as the automotive lending department or insurance division because remote communication is quick and effective. These back office functions can now be done from remote locations. People can now connect remotely and while on the road which makes dedicated office space sometimes unnecessary for some users.

As a result of changing demographics, new corporate perspective, technological advances and market cycles, it took many years for Downtown Halifax to absorb the office space constructed during the 1980's. A change in corporate mentality led to new tenant space requirements and preferences. Many tenants are now more cost conscious and focused on employee recruitment and



retention. As a result, these companies want to locate near their workforce, which due to housing migration, has become well represented in the suburbs. Many corporations are now placing more weight on employee preference than ever before, a trend which is expected to continue. Industries which have experienced this shift include insurance, banking and financial services.

Office construction began again in the latter part of the 1990's, except this time it was exclusively concentrated in the suburbs as developers built for this new type of tenant. Land in suburban locations was cheaper, easier to develop, and could provide a better economic return.

There has, in recent history, been a resurgence of interest in downtown living. This recent lifestyle shift is driven in part by the changing housing needs of the older Halifax Peninsula population, and new interest in multi-residential construction with more multi-residential projects under construction and planned for the Halifax Peninsula than ever before. This new rental building construction is driven by the low cost of insured debt, population migration from other parts of the province, and the recently announced ship building contract which is anticipated to create thousands of jobs.

Retail

The migration to suburban living resulted in the development of a retail base to service these new communities. Large retail centers experienced significant expansion, including the Bayers Lake and Burnside Business Parks and the Dartmouth Crossing retail centre. Retail tenants at these locations are provided free parking and good access to the nearby residential communities. These collections of big box stores at these nodes have become destination locations.

The retail tenants that will locate on Spring Garden Road are very different than the tenants that choose to locate in Bayers Lake or even nearby Barrington Street. The predominant trend is for larger tenants to locate in the suburbs and for smaller tenants to occupy niche markets in downtown areas. Much of the retail from Barrington Street to Halifax Harbour derives a significant portion of its business from the seasonal tourism industry.



Study of Commercial Taxes as a Driver for Business Location Decisions
Phase I
Project No. 100007

OFFICE STUDY



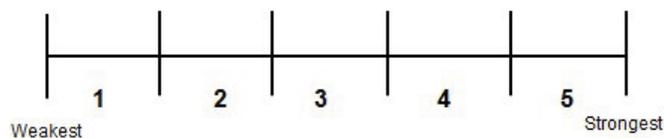
Office Interviews

Preamble

We have contacted 150+ HRM office tenants during our interview process, of which we conducted 33 interviews with tenants located in suburban office buildings and 20 interviews with tenants located in downtown areas. Interviews were conducted via telephone, email and in-person and included tenants that had recently relocated to or within suburban and downtown locations as well as tenants that have occupied their current premises for a number of years. At each organization an individual knowledgeable of the office leasing decision was interviewed. Tenant information was collected to identify company size by employee count both within HRM and elsewhere. Tenants were further identified by business type to allow for analysis of factors that affect various industries. The following chart indicates the number of respondents within each employee size category. The majority of respondents represented companies of 1-20 employees in their respective HRM location.

Number of Employees				
# Employees	# Suburban		# Downtown	
	Respondents	%	Respondents	%
1-20	22	67%	14	70%
21-50	8	24%	2	10%
51-100	2	6%	3	15%
100+	1	3%	1	5%
	33	100%	20	100%

The standardized interviews were designed to determine what factors contributed to tenant decisions to locate either in a suburban area or within the downtown. Participants were asked to score a list of common considerations for the level of significance their organization placed on each factor, with a score of 1 indicating little consideration and a score of 5 indicating strong consideration (as illustrated below). In addition to the scoring, participants were asked specifically about the influences that their own organization considered.



Tenants were asked to score and comment on the following factors:

- Rent
- Operating Costs
- Property Taxes
- Parking Costs

- Availability of Appropriate Space
- Green Initiatives (LEED)
- Infrastructure
- Transit / Access
- Employee Preference
- Employer Preference
- Proximity of General Retail
- Proximity to Airport/Highways
- Proximity to Restaurants/Banks/Services
- Travelling Time (Commuting)
- Proximity to Clients
- Image/Profile/Perception (downtown tenants only)

In addition to tenant interviews, we have surveyed active real estate professionals and business persons on the same criteria scored by tenants and described previous. These individuals included office building owners, managers, leasing agents, developers and other business persons. Our discussions with the real estate professionals indicated fairly consistent responses regarding factors motivating tenants to locate in the suburbs and downtown. Because of the limited number of interviews (under 10) we have presented the results as a generalized range, as indicated by the following chart:

Consideration	Definition
Low	Generally rated as 1 or 2.
Low-Moderate	Generally rated as 2 or 3.
Moderate-High	Generally rated as 3 or 4.
Significant	Generally rated as 4 or 5.

Office Interview Responses

The following charts display the results of the office tenant survey. Figures 1 and 2 illustrate the average tenant response scored for the consideration factors. These scores do not include responses from real estate professionals and have been arranged from the average lowest score to the average highest score. The charted data also depicts one sample standard deviation above and below the sample mean and illustrates the variability of tenant responses (+/-68% of responses are located within the indicated band).

Figure 3 visually compares the average tenant responses for suburban and downtown participants for each of the factors.

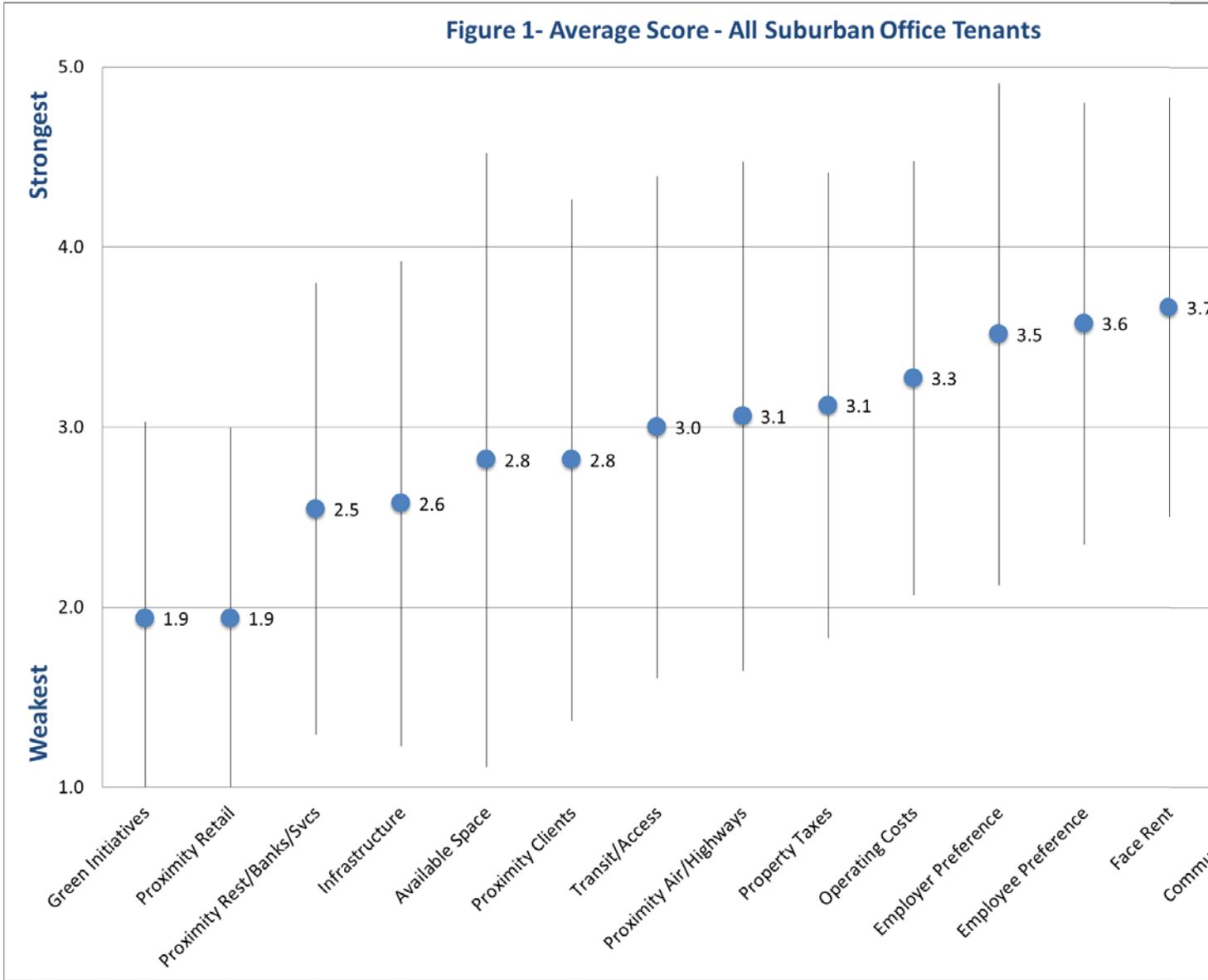
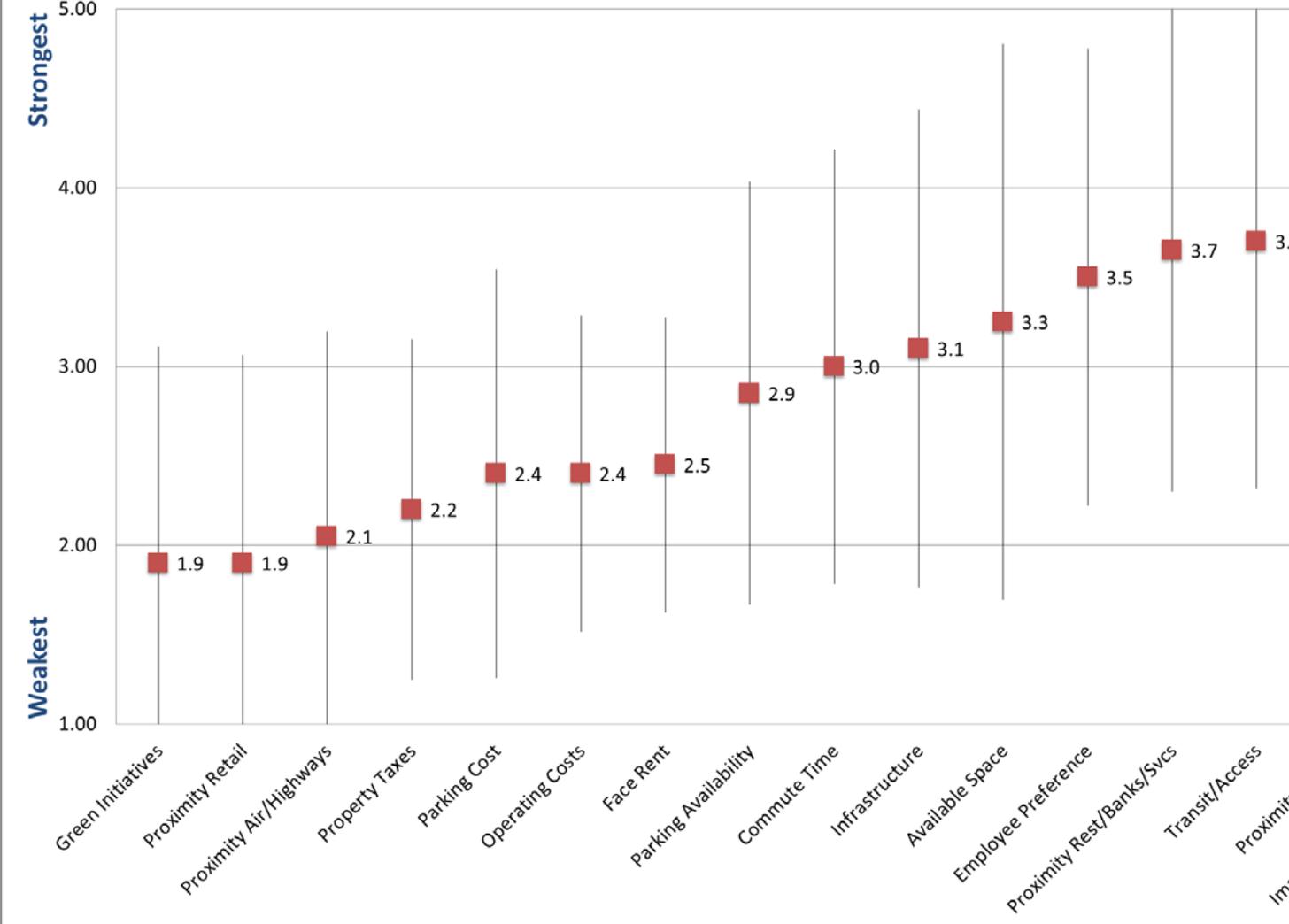
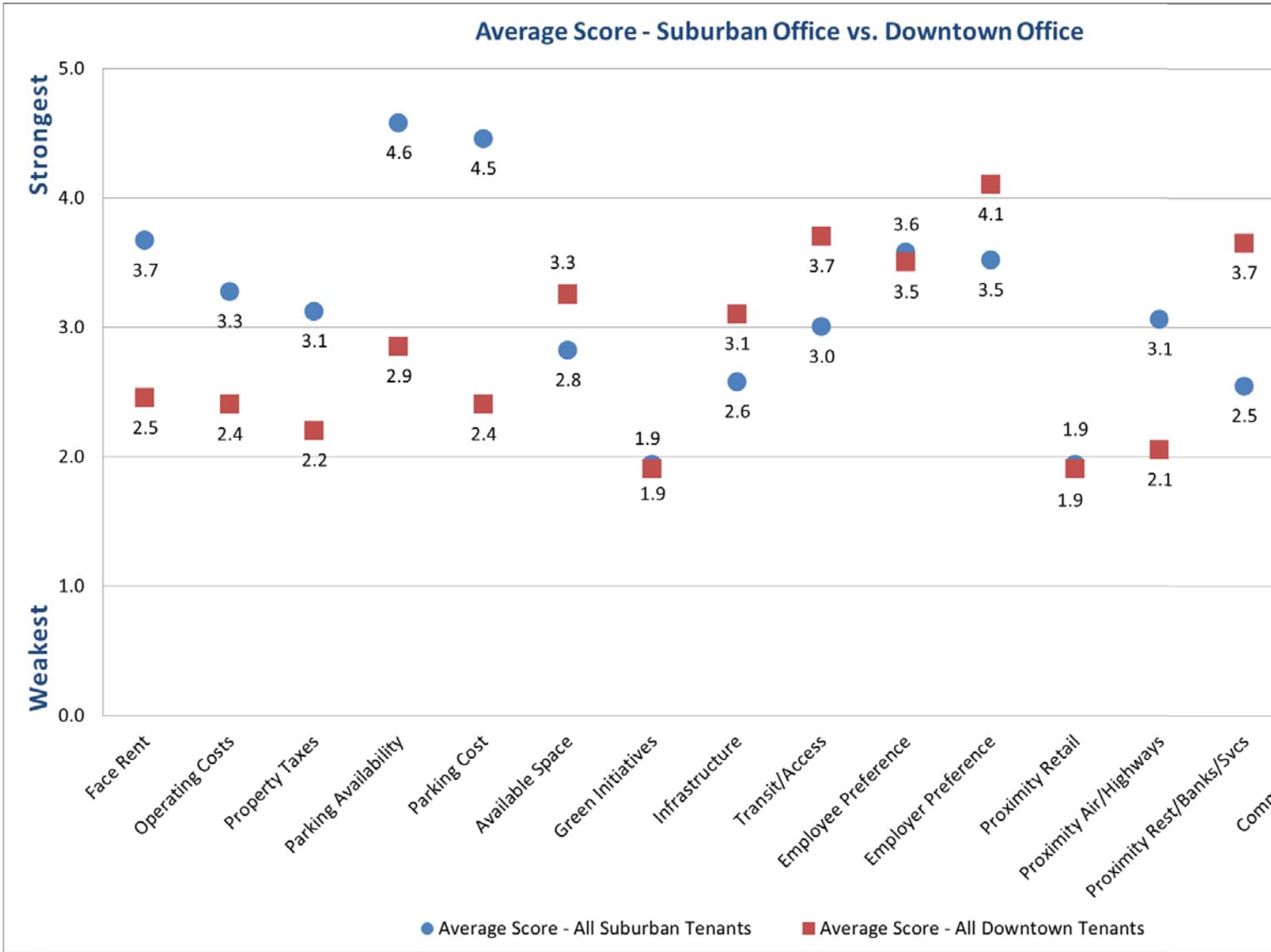


Figure 2- Average Score - All Downtown Office Tenants







Tenant Response Discussion

The following provides commentary of the suburban and downtown tenant responses.

Face Rent

Suburban

Suburban office tenants generally scored face rent as a more significant consideration when compared to the other factors presented, with an average ranking indicating it was the 4th most significant consideration (average score of 3.7).

A Banking/Financial industry tenant indicated that most of the firms' competitors are located in the downtown and the tenant differentiates itself on the basis of its suburban location. The business does not want to be perceived as another financial company in a large downtown office building. This tenant scored face rent low (1) as a consideration noting that the firm does not want to be located in the downtown.

A professional services tenant had a similar outlook indicating it was a 'suburban firm' which carries the perception of lower fees and overhead. Any move to the downtown would require substantial marketing to its cost conscious clientele to explain why the firm was relocating. This tenant scored rent as a more significant consideration (4).

Tenant scores for rent were generally varied across business types although not-for-profits, industry groups, and utilities consistently scored rent consideration as a 4 or a 5.

Real estate professionals generally rated face rent as a moderate-high consideration for tenants that chose to locate in the suburbs although it was noted that net rents are similar between the two areas.

Downtown

Downtown tenant's ranked face rent as less of a significant consideration when compared to suburban tenants (2.5 versus 3.7). Only one tenant in the downtown (Downtown Dartmouth) scored face rent above 3, which would have indicated a high level of consideration.

A number of tenants mentioned that their company needed to be downtown and that gross rents (face rent, operating costs, property taxes) were less of a consideration, although some tenants did indicate that the total cost of being downtown is not business friendly and makes competitiveness difficult.

Real estate professionals generally rated face rent as a low-moderate consideration for tenants that chose to locate in the downtown although it was noted that net rents are similar between the two areas.

Operating Costs

Suburban

Operating costs were described to participants as being exclusive of property taxes. Overall the average tenant score for operating costs as a consideration was below face rent and ranked midway when compared to the other factors presented (3.3).

Real estate professionals rated this consideration as moderate-high consideration for suburban tenants.

Downtown

Compared with suburban responses, downtown tenants ranked operating costs low as a consideration for determining location (2.4). Some tenants noted the increased cost associated with maintaining older buildings and recognized cheaper rent would be available in new suburban buildings. No downtown tenants ranked operating costs as a 5, which would indicate a high level of consideration.

Real estate professionals generally noted operating costs as being slightly higher in the downtown and consistently rated operating costs as a low-moderate consideration.

Property Taxes

Suburban

Property taxes were scored midway when compared to the other factors presented (3.1). A number of tenants indicated that lower property taxes would not cause the company to consider relocation to downtown areas. These firms cited other factors as more significant considerations, including parking and location aspects. Other tenants explained that some combination of parking, commute time or gross operating cost improvements would be necessary.

One tenant of an industry group (51-100 employees) that recently consolidated two downtown locations to one suburban office building indicated that it had considered consolidating in the downtown but found that although rent and operating costs were equivalent between the downtown and suburban locations, the downtown property taxes were significantly higher. The tenant ultimately chose to relocate to the suburbs on the basis of cheaper gross rent and identified property taxes as the contributing factor. The tenant acknowledged that while transit and access were important considerations and are considered weaker in its current suburban location, the decision



was made based on property taxes. Had property taxes in the downtown been more comparable with the suburban office space, the better transit system of the downtown would have probably resulted in a decision to remain downtown. The tenant noted that as a result of its employee profile and business culture, many employees make use of public transportation and so parking facilities and cost were not major considerations. It was noted that in the current suburban location many more employees are choosing to drive to work, which from a company cultural standpoint, is considered a negative consequence.

The tenants' decision process described above is generally contrary to what other tenants described as motivating factors in their decision to locate. The above tenant clarified that their organization is cost conscious given the nature of its revenue which is considered public money. The individual further explained that they were formerly a principle/founder of a large business which located in the suburbs for the sole reason of availability and cost of parking, and that the current cost consciousness is a result of the current organizations source of revenue.

Responses from tenants with respect to property taxes revealed mixed scoring and comments by industry although the general consensus is that other factors are more significant.

Real estate professionals generally rated property tax as a moderate-high consideration for suburban location decisions. A leading HRM real estate broker commented that they have never heard of a tenant making a location decision based on property taxes as the most significant consideration.

Downtown

Downtown tenants ranked property taxes as a low consideration when determining location with an average score of 2.2, making this factor the 4th lowest ahead of green initiatives, proximity to retail and proximity to airport and highways.

As previously mentioned, a number of tenants indicated that gross rents (of which property taxes are part) make operating in the downtown more difficult, which is made more difficult by the increased cost of maintaining older buildings and the cost of parking. Nonetheless, downtown tenants did not consider property taxes a major factor in determining where to locate.

Real estate professionals generally rated property tax as a low-moderate consideration for tenants that ultimately located downtown.

Parking Availability

Suburban

Parking facilities for suburban HRM office buildings typically consist of paved surface parking lots although there are properties which have 2-4 level parkades or enclosed underground facilities. Parking at these buildings is almost always free for tenants and employees. Parking ratios at suburban office buildings are typically in the range of 3-4 stalls per 1,000 sq.ft. of office space with most buildings having on-site parking space.

Conversely, parking facilities in downtown areas generally consist of underground garage parking and above ground parkades, although there are a number of surface parking lots which are available, particularly in the Quinpool Road, Agricola Street and Downtown Dartmouth districts. Many of the surface lots in Downtown Halifax, Spring Garden Road and Downtown Dartmouth districts represent holding uses for future development. Parking in these areas is limited and when available is usually charged. Parking rates generally range from approximately \$70 to \$160 per month with the lower end representative of surface parking in peripheral areas and the higher end representative of indoor/parkade facilities in the Central Business District. Parking ratios in downtown locations are usually considerably less than suburban standards with many buildings not having parking facilities. Parking at some lots/garages is for building tenants only, while some facilities provide non-tenant parking generally for periods up to 24 hours.

Suburban office tenants scored parking availability as the most significant factor contributing to the decision of where to locate (4.6). It is important to note that no suburban tenants scored parking availability as either a 1 or 2, and over 90% scored the factor a 4 or 5, indicating a good consensus among those tenants interviewed. Accordingly, the scores for parking availability demonstrated the lowest standard deviation when compared with scores for other factors.

Parking availability was considered important for both employee and client use. One professional services company (1-20 persons) which had previously been located on Spring Garden Road noted that clients never visited that location but now with the relocation to the suburbs and availability of parking, clients will visit the office. This tenant ranked the availability and cost of parking and commute time the most significant factors.

Another tenant that recently relocated from the Central Business District to the suburbs indicated that parking in Downtown Halifax is so poor that when visiting clients they park their vehicle (usually at Scotia Square) and taxi to other downtown client offices.

Sentiment from many tenants was that in order for their organization to consider a move to downtown, parking availability would have to be improved.



Real estate professionals consistently rated parking availability as a significant consideration for suburban location decisions.

Downtown

Downtown tenant responses generally indicated that parking availability was a moderate consideration when determining where to locate (2.9). Some downtown tenants indicated that they are still working to get enough designated parking for their employees and or clients. However, these tenants ranked other factors as more important considerations in their location decision.

Real estate professionals consistently rated parking availability as a low consideration for tenants that chose to locate in the downtown.

Parking Cost

Suburban

Suburban tenants scored parking costs as the second most significant factor affecting their location decision (4.5) after the availability of parking, although the average scores for both factors are very close. Dispersion of responses was the second most consistent, also after the availability of parking.

General tenant sentiment was that parking cost was a major consideration in location decisions. These tenants chose to locate in areas with 'free' parking for both tenants and clients. One client indicated that when board meetings were held at their downtown offices board members had to pay on the order of \$15 dollars to park their vehicle, an expense that does not exist at suburban offices.

Real estate professionals consistently rated parking cost as a significant consideration for suburban location decisions.

Downtown

Tenant responses revealed an average score for parking cost of 2.4, which indicates a low consideration. While many tenants suggested that parking costs were high and noted that suburban parking was free, there were other considerations that led the company to be located in the downtown.

Real estate professionals consistently rated parking cost as a low consideration for downtown location decisions. It was commented that often the individuals making the location decisions have their parking paid for by the company and therefore may view this factor as less important than other employees in general.

Availability of Appropriate Space

Suburban

Suburban tenants scored the availability of appropriate space as a moderate consideration for choosing location (2.8). Responses for this category were wide ranging with mixed tenant experiences regarding space options.

Real estate professionals rated availability of appropriate space as a moderate-high consideration for suburban location decisions.

Downtown

Downtown tenants rated availability of appropriate space as a moderate consideration (3.3) with similarly wide ranging responses.

Real estate professionals consistently scored availability of appropriate space as a moderate-high consideration for downtown location decisions.

Green Initiatives

Suburban

Suburban tenants ranked green initiatives as the lowest consideration when deciding on location (1.9). While many tenants acknowledged the benefit of environmental programs and possible lower operating costs, the general consensus was that the tenants would not sacrifice operating results for green initiatives. No tenant ranked green initiatives as a 5 (most significant consideration).

A professional services company, specifically an engineering consulting firm that does work designing LEED buildings, ranked green initiatives as a 3.0. For this tenant, travel/commute time and access to highways/airports were the most significant considerations.

Another tenant, an industry group which promotes energy efficiency, indicated that LEED initiatives 'would be nice', but that it was more concerned with the cost of space and transit/access. This tenant scored green initiatives at 2.0, with transit and access being the most significant consideration.

Real estate professionals generally rated green initiatives as a low-moderate consideration for tenants that decided to locate in the suburbs. It was noted that in the current economic market, companies are looking to the bottom line before green initiatives.

Downtown

Similar to suburban tenants, downtown tenants also ranked green initiatives as the lowest consideration (1.9). Sentiment was consistent across both locations that companies would not



sacrifice performance objectives for environmentally friendly initiatives but noted that green initiatives would be nice and would probably sway a decision all other factors being equal.

Real estate professionals consistently rated green initiatives as a low consideration for downtown location decisions.

Infrastructure

Suburban

Suburban tenants ranked infrastructure as a low-moderate consideration in their decision of where to locate (2.6). Generally tenants felt that infrastructure was comparable in both suburban and downtown locations.

Real estate professionals generally rated infrastructure as a low-moderate consideration for suburban location decisions.

Downtown

Downtown tenants scored infrastructure higher than their suburban counterparts (3.1) although many tenants noted the infrastructure is similar in both locations.

Real estate professionals generally rated infrastructure as a significant consideration for downtown location decisions.

Transit Access

Suburban

Responses from suburban tenants regarding transit/access were mixed (3.0), with a number of tenants weighting little consideration and others indicating the factor was one of or the most significant considerations. There was no discernible pattern among business types with some tenants acknowledging both employees and clients benefitted from improved transit and access. While public transit is generally considered better in the downtown, given that the downtown is a central connector, access to this area can be difficult given the geography of the Halifax Peninsula and limited major thoroughfares.

Real estate professionals provided ranging responses with some indicating that transit is less important whereas access is a significant consideration for suburban decisions.

Downtown

Downtown tenants ranked transit/access as a more significant consideration in determining location (3.7), higher than suburban tenants. A number of tenants noted that a major consideration was that all public transport routes lead to downtown and that the downtown connecting hubs were important factors. Given the cost of parking in the downtown, many tenants indicated that employees and clients opt to ride public transport and do not bring personal vehicles to work. This lifestyle difference results in higher downtown consideration for transit/access and lower consideration for parking availability and cost.

Real estate professionals generally rated transit/access as a significant consideration for downtown location decisions, commenting that all mass transit routes connect to downtown.

Employee Preference

Suburban

Employee preference as a location decision factor was generally rated toward the higher end of the significance scale (3.6). Some tenants indicated that employees were involved in the decision making process or at least that their preferences were considered. Other tenants revealed that the location decision was based on other factors and that employees were not consulted for preference.

Real estate professionals generally indicated employee preference to be a moderate-high consideration for suburban location decisions.

Downtown

Downtown tenants scored an average of 3.5 for employee preference as a consideration for choosing location. Some organizations factored more weight to employee preference than other companies with one tenant musing that downtown 'was equally inconvenient' and others echoing the sentiment indicating that employees commute from many different suburban areas and that the centrally located downtown was considered the most suitable location.

Real estate professionals generally rated employee preference as a significant consideration for downtown location decisions.

Employer Preference

Suburban

Employer preference was given an average rating of 3.5 by suburban tenants. This category includes overall company or corporate sentiment or attitude toward the specific location and can include items such as political motivation or a corporate culture or history at a location. Suburban tenant responses indicated similar consideration to employee preference in determining location decisions (3.6) and



many tenants indicated that a location was determined on the basis of accommodating as many individuals as possible.

Real estate professionals rated employer preference to be a moderate consideration for suburban location decisions.

Downtown

Downtown tenants attributed more significance to employer preference (4.1) than did suburban tenants. While many downtown tenants noted that employee considerations were weighed in a decision to locate, employer consideration reigned supreme.

One tenant which recently considered relocation out of Downtown Halifax cited political considerations as a major factor in choosing to remain in its location. The tenant, which is in the real estate industry, noted that it does business with its current landlord and any relocation could damage existing relationships with the current landlord or other property owners and consequently the tenant remained in the premises it has occupied for the previous 15 years.

Real estate professionals rated employer preference to be a significant consideration for downtown location decisions.

Proximity to General Retail

Suburban

This factor averaged the second lowest score from suburban tenants (1.9) with no tenant rating this factor at 5.0 (most significant). Tenant responses were generally consistent in that the decision to locate in the suburbs was not significantly affected by the proximity of the office space to retail. It is worth noting that most of the major office projects in suburban areas of HRM are located near or within retail nodes, including Bayers Lake, Clayton Park, Burnside, City of Lakes, Mumford Road, and Bedford (near Bedford Highway and Dartmouth Road).

Real estate professionals rated proximity to general retail as a low-moderate consideration for suburban location decisions.

Downtown

Similar to suburban tenants, downtown tenants ranked proximity to general retail as the second lowest consideration when determining location (1.9) with no tenants scoring the factor a 5. It is worth noting that the retail currently available in downtown areas is differentiated from suburban

centres which is typically more 'big box', large format, chain retailers, whereas downtown retail is typically small scale and specialized, and generally caters to those who live/work in the surrounding areas.

Real estate professionals generally rated proximity to general retail to be a moderate-high consideration for downtown location decisions.

Proximity to Airports / Highways

Suburban

Suburban tenant responses were mixed regarding proximity to airports/highways (3.1). The proximity to highways is a major component of travel/commute time which was rated as the third most significant consideration after availability and cost of parking. Access to highways was well rated by tenants with business that required frequent travel.

Real estate professionals rated proximity to airports and highways as a moderate-high consideration for suburban location decisions.

Downtown

Downtown tenant responses averaged 2.1, indicating a low consideration to location of airports and highways. No downtown tenants ranked this factor a 5.

Real estate professionals rated proximity to airports and highways to be a low-moderate consideration for downtown location decisions.

Proximity to Restaurants/Banks/Services

Suburban

Responses from suburban tenants on the significance of proximity to restaurants/banks and services was generally ranked low (2.5). Tenant weighting was more preferential to this category than it was to general retail (1.9), although both were scored low.

Real estate professionals rated proximity to restaurants, banks and services as a low-moderate consideration for suburban location decisions. While amenities exist in suburban areas they are not within walking distance.

Downtown

Downtown tenants ranked proximity to restaurants/banks and services higher than suburban tenant, 3.7 compared with 2.5. For a number of the tenants surveyed, restaurants/banks and other service



companies were clientele and unsurprisingly these tenants scored the factor of proximity to clients as a consideration of similar significance (3.8).

Real estate professionals rated proximity to restaurants, banks and services as a significant consideration for downtown location decisions. It was noted that tenants that are looking for space want to be near amenities which include restaurants, pharmacies, and banks etc. so that errands could be completed during lunchtime. Most downtown and suburban office locations were considered good for these amenities with those in the downtown generally within walking distance.

Travelling Time (Commuting)

Suburban

Travel /commute time was generally scored as being a significant consideration for suburban tenants (3.8). This factor was ranked 3rd after parking availability and parking cost. A number of tenants indicated that in order for their business to consider relocation to downtown it would require improved commute times. Many of the businesses indicated that most, if not all, employees resided in suburban areas of HRM, and therefore to locate in downtown areas didn't make sense.

Real estate professionals rated travelling time as a significant consideration for suburban location decisions.

Downtown

Downtown tenants ranked travelling time/commute time as a moderate consideration (3.0). This is considered to be less of a significant consideration than it was for suburban tenants, which ranked travel/commute time as the 3rd most significant consideration. A number of tenants felt that travel time to the downtown was excessive and should be improved, but that other factors require the company to remain downtown.

Real estate professionals rated travelling time as a low-moderate consideration for downtown location decisions.

Proximity to Clients

Suburban

The average suburban tenant response ranked proximity to clients as a moderate consideration (2.8) in determining where to locate. Clientele varied in meaning from professionals (insurance, wealth management) to distributors (sales industry).

Real estate professionals rated proximity to clients as a moderate consideration for suburban location decisions.

Downtown

Downtown tenant responses ranked proximity to clients as a 3.8, which is considered a moderately high consideration although responses demonstrated a wide spectrum of scores. This variability of responses results from IT firms, R&D firms and a large insurance firm (which is essentially a back office call centre) scoring this factor low. Most other businesses, particularly professional services firms, scored this factor as 5, indicating proximity to clients is or is one of the most significant considerations.

One wealth management firm, which is in the process of relocating within the Central Business District, indicated it needed to be in the downtown to be close to clients, which are mostly professionals and banks. The firm had looked at space at Founders Square before deciding on a building located in the heart of the central business district some 200 metres away. The Founders Square space was suitable but was considered 'too far' from clients.

Real estate professionals rated proximity to clients as a significant consideration for downtown location decisions.

Image/Profile Perception

Suburban

This factor was not scored for suburban tenants although as noted previously a number of tenants chose to differentiate their business from competition by locating in the suburbs. This included wealth management and accounting firms. These firms noted that the suburban location carried the perception of lower fees and overhead which was preferred by their cost conscious client base, which is also predominantly located in the suburbs.

Downtown

Downtown tenants ranked image/profile perception as a major consideration, indicating an average score of 4.0. This ranks this factor as the most significant consideration. The average for this factor was reduced by the inclusion of IT firms which rated this consideration 1. Tenants in Downtown Dartmouth also rated this factor low. A number of tenants indicated a downtown address looks good and were willing to pay additional to have one

We did not interview large law firms, accounting firms or any chartered banks during the course of this assignment but we are aware that these organizations are located downtown for reasons of image/profile and perception with the law firms also wanting to locate near the law courts.



Real estate professionals rated image, profile and perception as a significant consideration for downtown location decisions.

Additional Comments

Other considerations which were revealed during tenant conversations included a preference for some tenants to locate in the suburbs in order to receive building signage. One tenant acknowledged that potential clients didn't know the company had a presence in HRM until a sign was placed on the side of the tenant's building which had exposure to a busy highway. Another downtown tenant that had recently relocated within the downtown was considering relocating again within the downtown to a street-front space with pedestrian access onto a busy downtown street in order to get more exposure. The tenant indicated that attempting to get signage in the Central Business District was difficult, expensive, and a process that can take months. This tenant is in the business of HR recruitment and scored transit/access and image/profile perception as highest scores, noting that all of its competitors are downtown, an industry trend that exists in most major Canadian cities.

One tenant that recently relocated from Burnside to Spring Garden Road explained a perception that Spring Garden Road is experiencing a negative transformation and that loiterers and panhandlers are making office locations less attractive in this area. This business rated image/profile perception as the most significant factor in location.

One tenant located on Spring Garden Road elaborated on the question of proximity to clients to explain that the organization considered proximity to other professional service firms which may not be considered clients. These other firms which have a 'synergistic' benefit included: law firms, appraisal firms and banks. While not directly clients, it was noted that it is beneficial to be in close proximity to maintain relationships, which includes lunches, social events after work, and generally being seen.

Other tenants noted the downtown pedway system was a major positive factor and that only buildings with access to the pedway would be considered for relocation space.

Office Interviews Analysis and Conclusions

Tenant interviews generally revealed consistent results within the two categories of office space. Responders consistently scored parking availability and parking cost as the main motivation for locating in the suburbs with the third highest score being travel/commute time. Tenants and real estate professionals indicated that employees tend to live in suburban communities and the suburban office space allows for quicker commute times than does a downtown location. A number of tenants

indicated that in order for their organization to consider moving downtown all three of these factors would have to be improved or some combination of lower taxes and parking incentive. A number of other tenants indicated that their business model precludes locating in the downtown, and no enticement measures could cause them to relocate.

Downtown tenants consistently scored image/profile perception, employer preference, and proximity to banks, restaurants and services as the most significant considerations. The category of employer preference would encompass a corporate decision to be located within the downtown for various reasons. Discussions with real estate professionals indicated that they are aware of location decisions being based on proximity to principle/founder residences, proximity to clubs, and for political reasons.

Property taxes were ranked as a moderate consideration for suburban tenants and a low consideration of downtown tenants. The highest rated component of gross rent, face rent, was rated the 4th most significant consideration by suburban tenants. This compares with the 10th most significant consideration by downtown tenants. Both results indicate that gross rent, of which property taxes are part, is not one of the strongest concerns for tenants in either locale. Many tenants did comment that property taxes are perceived as too high although results show that overall consideration is more affected by other factors.

A local leading real estate broker commented that unlike the downtown centres of major cities such as Toronto, Montreal and Vancouver, there is 'no compelling reason' for office tenants to be in downtown HRM. It was further explained that there is essentially no material net rent premium attributed to downtown HRM space, whereas this net rent premium can be 30% or higher in major centres such as Toronto.

The preceding discussion indicates that there are generally two profiles of HRM tenants: those which choose to locate in the suburbs for lower overall costs (particularly free and abundant parking) as well as for employee lifestyle/accommodation reasons and those which prefer to locate in downtown areas for business reasons including servicing clients and company image.



Office Property Tax Comparison

Preamble

We have collected information on major office developments in the downtown and suburban HRM areas to determine the estimated property taxes per square foot. The selected properties are occupied predominantly by office tenants and we have not included properties with substantial mixed use components which would result in a skewed analysis of taxes levied on office premises. Comparisons are made between Class A office buildings located in the downtown with those located in the suburbs and between Class B/C office buildings located in the downtown with those located in the suburbs.

The property tax per square foot estimate is calculated based on the budgeted HRM 2012 tax rate, the 2012 assessment, as recorded by the Nova Scotia Property Records Database Property Online, and building sizes as reported by Altus InSite and property landlords. It is important to note that rates and areas are a general analysis and may not be reflective of actual leases or recovery practices recharged or advertised by landlords and may not be reflective of rates advertised by brokers.

Office Building Class

Industry practice is to classify office space according to the quality of space, design, construction materials, tenant mix, age, size, and location. Classes of space are relative to the market such that a Class A building in Toronto is not the same as a Class A building in HRM. The following chart outlines the Altus InSite definition of office Class A, B and C office space.

Class	Definition
A	Higher Quality combination of design, materials, tenant mix, age, size and location.
B	Moderate quality combination of design, materials, tenant mix, age, size and location.
C	Lower quality combination of design, materials, tenant mix, age, size and location.

Downtown Comparison

The chart on the following page compares the taxes per square foot for downtown and suburban Class A office buildings with leasable areas of over 20,000 square feet. Downtown office taxes per square foot range from \$4.27 to \$6.31 compared with the suburban rates which range from \$3.55 to \$5.69.

Class A Taxes Per Square Foot - Downtown vs. Suburban

Index No.	Class	Year Built	2012 Assessment PSF	Est. 2012 Taxes PSF
Downtown Class A				
1	A	1987	\$119	\$4.27
2	A	1988	\$165	\$5.91
3	A	1986	\$172	\$6.16
4	A	1988	\$176	\$6.31
			Average	\$5.66
			Median	\$6.04
Suburban Class A				
5	A	2009	\$99	\$3.55
6	A	2012	\$105	\$3.77
7	A	2009	\$105	\$3.79
8	A	2000	\$130	\$4.69
9	A	2003	\$130	\$4.69
10	A	2001	\$130	\$4.69
11	A	1987	\$133	\$4.78
12	A	2001	\$135	\$4.87
13	A	2006	\$146	\$5.25
14	A	2008	\$148	\$5.33
15	A	2006	\$149	\$5.38
16	A	1999	\$156	\$5.62
17	A	2008	\$158	\$5.69
			Average	\$4.78
			Median	\$4.78

*rates and areas are a general analysis and may not be reflective of actual leases or recovery practices.

In the above list it is important to note that Index No. 5 has not yet reached full assessment as the building was completed in 2012 and the 2012 assessment for this property is based on the condition of the property at December 1, 2011. There is likely to be an increase in assessment in future years to reflect the fully completed state of the property.



Analysis

The chart illustrates that Class A downtown property taxes per square foot are generally in the order of \$1.00 to \$2.00 per square foot higher than suburban Class A properties. In addition to higher property taxes, these downtown buildings tend to have higher operating costs resulting from the age of the buildings and additional buildings services, including: concierge service, additional security and cleaning services, and indoor/parkade parking facilities. These factors contribute to higher additional rent and often results in higher overall occupancy costs.

Suburban Comparison

The following chart compares the taxes per square foot for downtown and suburban Class B and C office buildings with leasable areas of over 20,000 square feet. Downtown office taxes per square foot range from \$1.23 to \$4.07 compared with the suburban rates which range from \$2.33 to \$6.07.

Class B/C Taxes Per Sqaure Foot - Downtown vs. Suburban

Index No.	Class	Built	2012 Assessment PSF	Est. 2012 Taxes PSF
Downtown Class B/C				
18	B	1972	\$34	\$1.23
19	B	1974	\$50	\$1.79
20	B	1959	\$50	\$1.80
21	C	1960	\$54	\$1.95
22	C	1965	\$61	\$2.19
23	B	1988	\$73	\$2.62
24	B	1966	\$81	\$2.89
25	B	1964	\$83	\$2.96
26	B	1975	\$84	\$3.01
27	B	1964	\$87	\$3.13
28	B	1986	\$88	\$3.18
29	B	1982	\$91	\$3.25
30	C	1964	\$93	\$3.33
31	B	1975	\$94	\$3.36
32	B	1999	\$97	\$3.48
33	B	1975	\$105	\$3.75
34	B	1986	\$109	\$3.91
35	B	1966	\$109	\$3.91
36	B	1977	\$113	\$4.04
37	B	1972	\$113	\$4.06
38	B	1979	\$114	\$4.07
			Average	\$3.04
			Median	\$3.18

*rates and areas are a general analysis and may not be reflective of actual leases or recovery practices.

Class B/C Taxes Per Square Foot - Downtown vs. Suburban

Index No.	Class	Built	2012	Est. 2012
			Assessment PSF	Taxes PSF
Suburban Class B/C				
39	B	1989	\$65	\$2.33
40	C	1974	\$68	\$2.44
41	B	1991	\$68	\$2.47
42	B	1972	\$73	\$2.65
43	B	2002	\$89	\$3.22
44	B	1985	\$90	\$3.24
45	B	1965	\$91	\$3.28
46	B	1986	\$93	\$3.36
47	B	1989	\$99	\$3.58
48	B	1973,89,96	\$100	\$3.61
49	B	1993	\$104	\$3.74
50	B	1970	\$105	\$3.76
51	B	1990	\$107	\$3.86
52	B	1986	\$113	\$4.08
53	B	2001	\$117	\$4.22
54	C	1985	\$119	\$4.28
55	B	1985	\$123	\$4.40
56	B	2000	\$128	\$4.60
57	B	1976	\$143	\$5.14
58	B	1983	\$144	\$5.19
59	B	1985	\$162	\$5.80
60	B	1988	\$169	\$6.07
			Average	\$3.88
			Median	\$3.75

*rates and areas are a general analysis and may not be reflective of actual leases or recovery practices.

Analysis

The presented information indicates that downtown taxes per square foot for Class B/C space are relatively on par with the suburban alternative. Notably, some of the highest per square foot assessments are found in suburban space, although Indices 50, and 57 to 60 do contain some ground floor retail components which tend to contribute to higher assessments. Some of the lowest taxes per square foot are also available in the downtown.

Operating expenses between downtown and suburban Class B space is generally comparable and will vary depending on type or presence of parking facilities and level of building services provided.



Office Property Tax Comparison Conclusions

For Class A space there is an apparent premium in property taxes for downtown space when compared to suburban accommodations. Downtown Class A space, which is predominantly located in the Central Business District, consists of those buildings considered to be the premier office space in Atlantic Canada and attracts differing tenant profiles from other buildings. Unsurprisingly the premier buildings are attributed higher assessments, and therein property taxes per square foot, than the similarly categorized Class A suburban space.

Property tax per square foot for downtown Class B/C office space is considered to be comparable to similar classed space in the suburbs. Unlike downtown Class A buildings, downtown Class B buildings do not offer the same level of prestige and there appears to be less of a distinction between profile of a downtown Class B/C building and a suburban Class B/C building.



Study of Commercial Taxes as a Driver for Business Location Decisions
Phase I
Project No. 100007

RETAIL STUDY



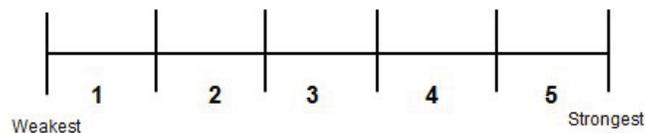
Retail Interviews

Preamble

We have contacted 150+ HRM retail tenants during our interview process, of which we conducted 21 interviews with tenants located in suburban locations and 30 interviews with tenants located in downtown areas. Interviews were conducted in person and included tenants that had recently relocated to or within suburban and downtown locations as well as tenants that have occupied their current premises for a number of years. At each organization, an individual knowledgeable of the office leasing decision was interviewed. Tenant information was collected to identify company size by employees both within HRM and elsewhere. Businesses were further identified by retail type to allow for analysis of factors that affect different retail groups. The following chart indicates the number of respondents within each employee size category. The majority of respondents represented companies of 1-20 employees in their respective HRM location.

Number of Employees				
# Employees	# Suburban		# Downtown	
	Respondents	%	Respondents	%
1-20	18	86%	26	87%
21-50	2	10%	4	13%
51-100	1	5%	0	0%
100+	0	0%	0	0%
	21	100%	30	100%

The standardized interviews were designed to determine what factors contributed to tenant decisions to locate either in a suburban area or within the downtown. Participants were asked to score a list of common considerations for the level of significance their organization placed on each factor, with a score of 1 indicating little consideration and a score of 5 indicating strong consideration (as illustrated below). In addition to the scoring, tenants were asked specifically about the influences their retail location considered.



Tenants were asked to score and comment on the following factors:

- Rent
- Operating Costs
- Property Taxes
- Parking Costs

- Availability of Appropriate Space
- Green Initiatives
- Infrastructure
- Transit / Access
- Employee Preference
- Employer Preference
- Proximity of Complimentary / Related Retail
- Proximity to Airport/Highways
- Proximity to Restaurants/Banks/Services
- Travelling Time (Commuting)
- Proximity to Clients / Customers
- Image/Profile/Perception

In addition to tenant interviews, we have had discussions with active real estate and business professionals on their experience with retail and tenant considerations. Discussions focused on each of the downtown nodes and the larger suburban area. Our discussions with these individuals provided insight into retailers' decisions to locate in the suburbs and downtown.

Retail Interview Responses

The following charts display the results of the retail tenant survey. Figures 1 and 2 illustrate the average tenant response scored for the consideration factors. These responses have been arranged from the average lowest score to the average highest score. The charted data also depicts one standard deviation above and below the mean, illustrating the variability of tenant responses (+/-68% of responses are located within the indicated band).

Figure 3 visually compares the average retailer responses for suburban and downtown participants for each of the factors.

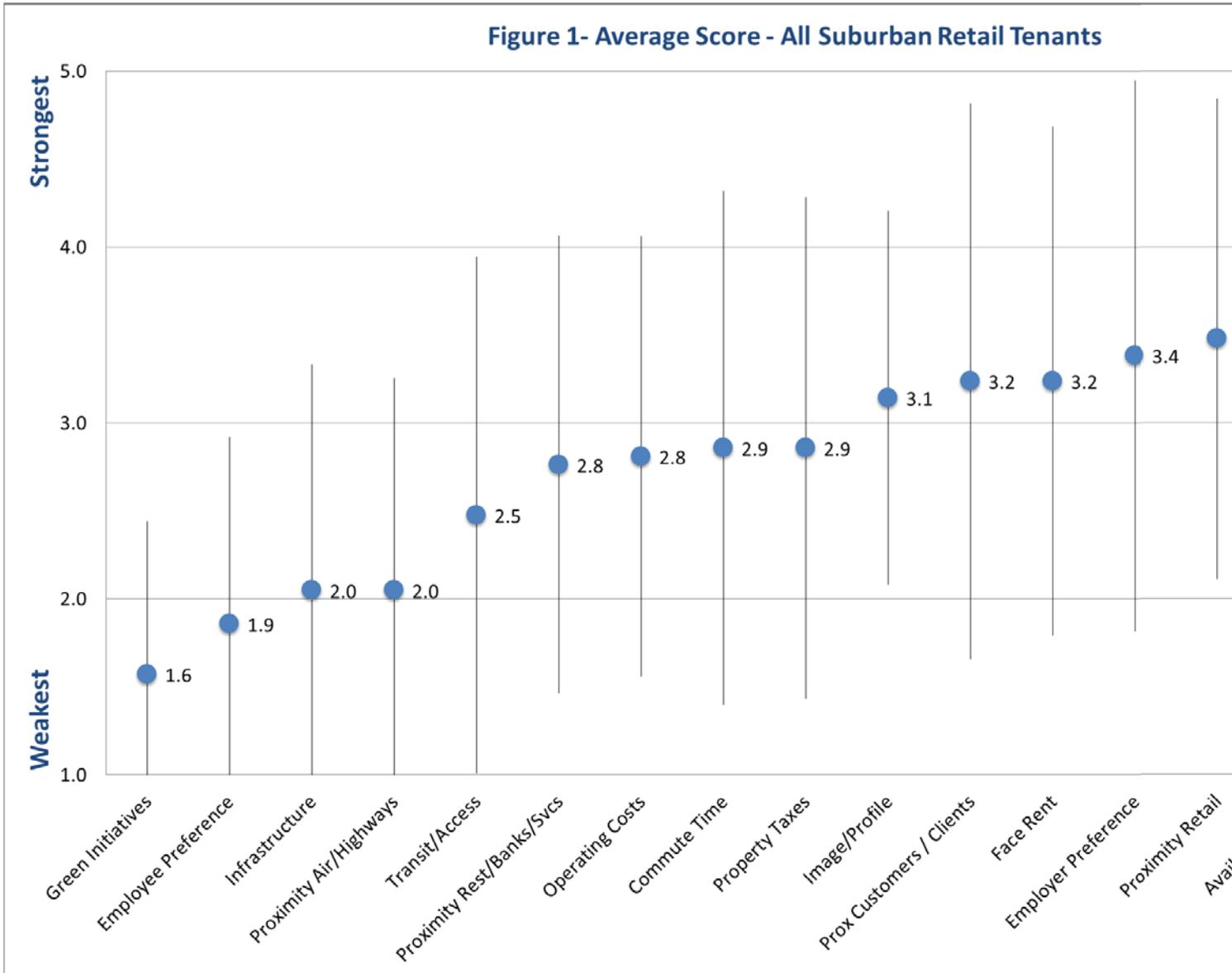
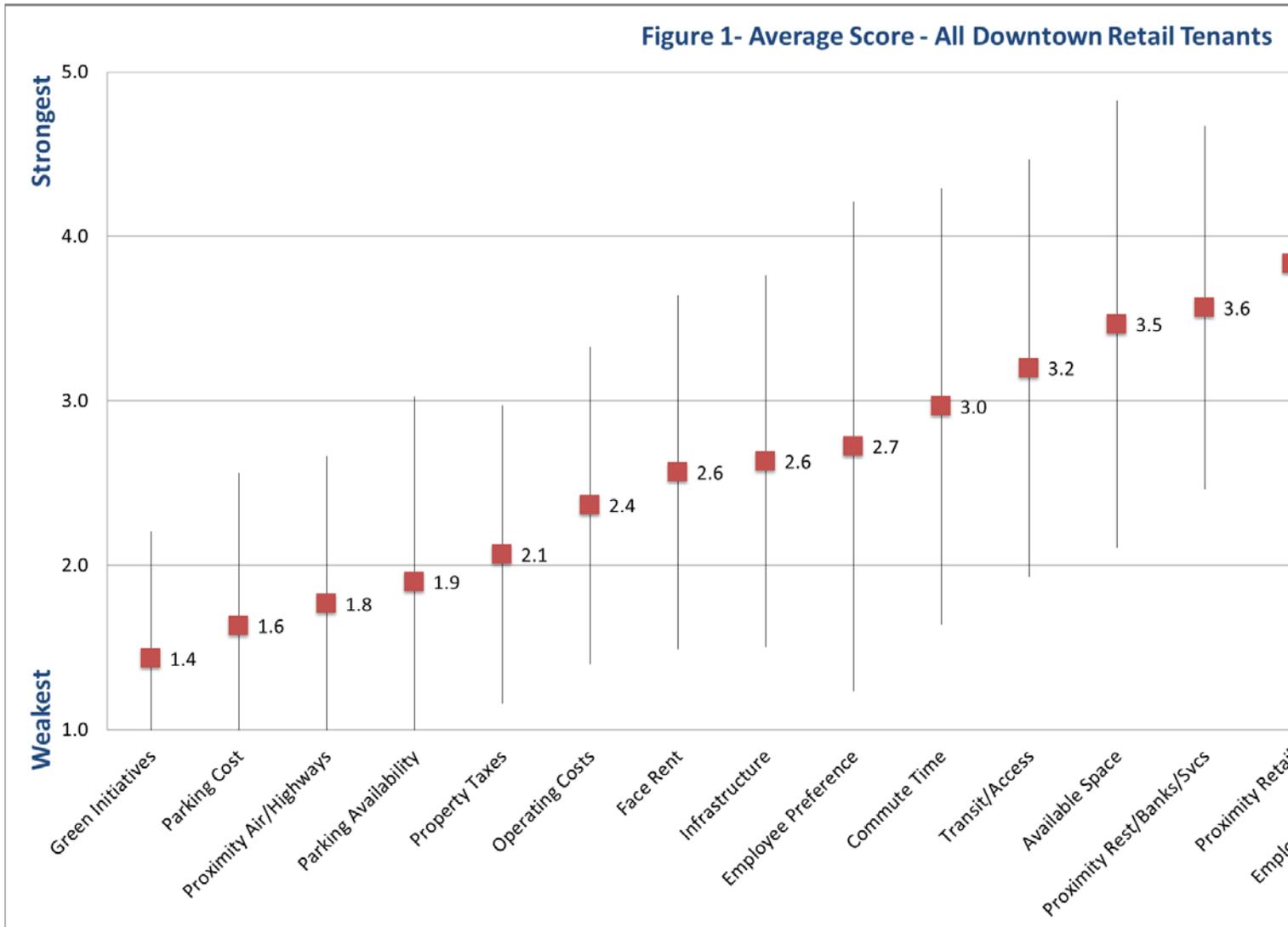
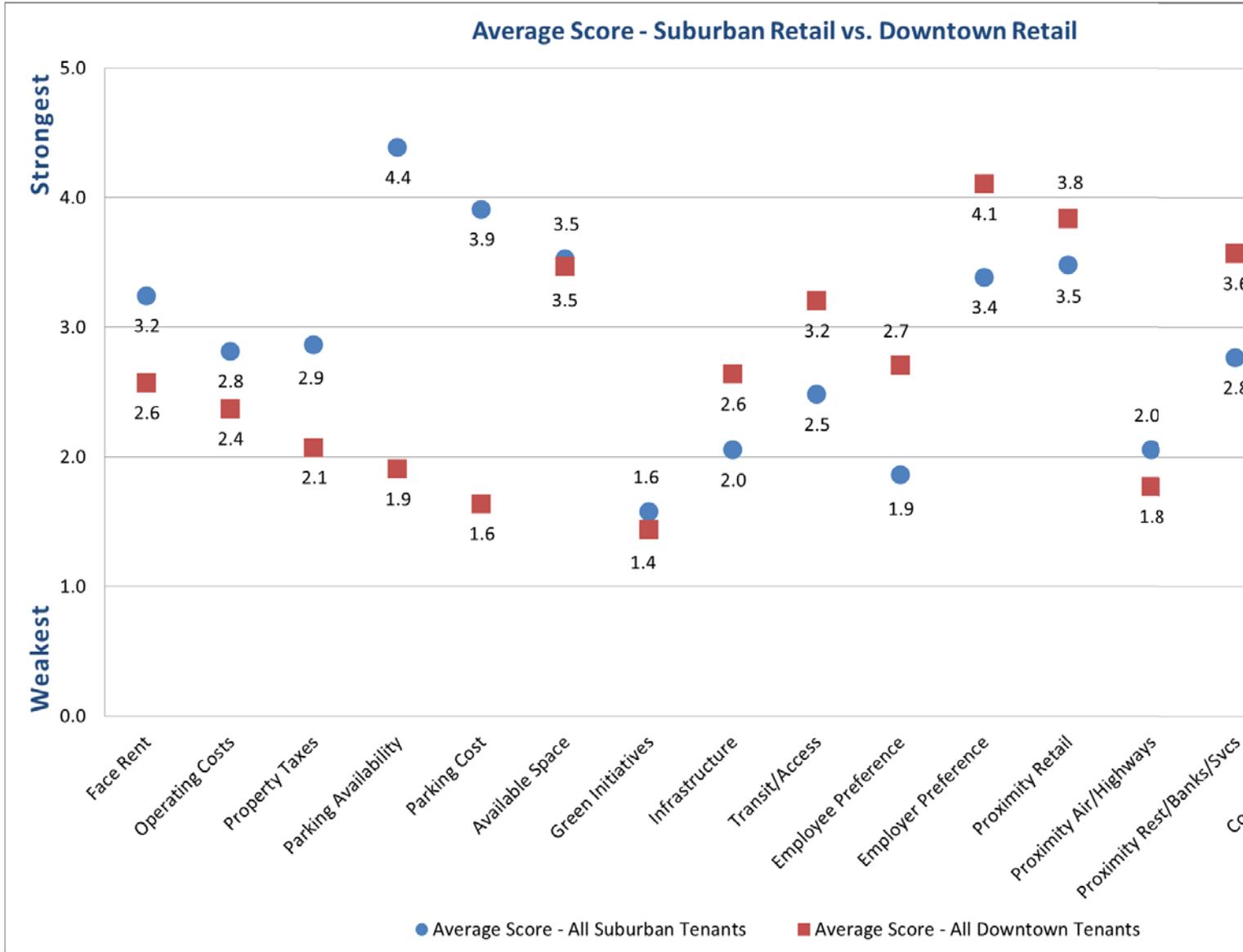


Figure 1- Average Score - All Downtown Retail Tenants







Tenant Response Discussion

The following provides commentary of the suburban and downtown tenant responses.

Face Rent

Suburban

Suburban tenants ranked face rent toward the middle of the range, indicating an average score of 3.2. While a number of tenants indicated rents were high there were other factors which contributed more significantly to their location decision. Many retailers along Agricola Street own the building their business occupies as retail space for investment purposes (to be rented to a third party) is more risky given that the area is difficult to lease. There are; however, exceptions to this; we spoke with an individual who owns and occupies space as well as leases office/retail space along the street. This individual commented that retail along the street has made progress in recent years.

Our discussions with other market participants indicated that retailers will locate where the rent (viewed as a gross number including property taxes and operating costs) makes sense in relative terms to the businesses top line.

Downtown

Downtown tenants scored face rent toward the lower to middle of the range when determining where to locate (2.6). Tenants in peripheral downtown areas generally scored rent higher than those tenants located in more central areas.

Similar to office responses, a number of retailers mentioned that their company needed to be downtown and that gross rents were less of a consideration, although some tenants did indicate that the cost of being downtown is not business friendly and makes competitiveness difficult.

Although rents along Spring Garden Road are some of the highest in HRM on a per square foot basis, discussions with individuals knowledgeable of retail in the area revealed that despite this fact there are many businesses eager to take space whenever a storefront becomes available. Businesses are willing to pay more for the high pedestrian traffic and perhaps spend fewer dollars on marketing.

Retailers along Agricola Street generally scored rent as a more significant consideration than did other downtown areas where such tenants are perhaps perceived as less price-sensitive. A number of retailers indicated they chose to locate along Agricola Street as a compromise between a central downtown location and cost (particularly gross rents, which includes operating costs and property taxes).

Operating Costs

Suburban

Suburban responses ranked operating costs toward the middle the range for determining location, indicating an average score of 2.8. The average score is in line with suburban property taxes and above the average score from downtown tenants.

Downtown

Downtown responses ranked operating costs low as a consideration for determining location (2.4). Some tenants noted the increased cost associated with maintaining older buildings and recognized cheaper rent would be available in new suburban buildings but that the business occupies a niche market and couldn't exist in the suburbs. Similar to downtown office tenants, no downtown retail tenant ranked operating costs as a 5, which would indicate a high level of consideration for the factor.

Property Taxes

Suburban

Suburban tenants scored property taxes toward the middle of the scale when determining location with an average score of 2.9.

One tenant we spoke to commented they were looking at relocating to Downtown Halifax. The tenant currently occupies a 10,700 sq.ft. retail premise with property taxes last year equating to approximately \$4,000; however, if the tenant was to relocate downtown in an appropriate location of similar size, they commented property taxes would equate to approximately \$15,000, a significant increase in overall costs.

Another tenant commented that he was a first time business operator, and a major decision in locating in the suburbs was to minimize overall operating costs, and thus property taxes along with rent were significant considerations.

Downtown

Downtown tenants ranked property taxes as a low consideration when determining location with an average score of 2.1.

As previously mentioned, a number of tenants indicated that gross rents (of which property taxes are part) makes operating in the downtown more difficult. Nonetheless, downtown tenants did not consider property taxes a major factor in determining where to locate.

A businessperson in the Spring Garden Road district explained confusion over the recent and dramatic 16% increase in taxes for commercial properties in the district and commented that many



businesses would like to see HRM put more tax dollars into the area which generates a reported \$7,000,000 in tax revenue annually.

No downtown tenants scored property taxes a 5, which would indicate a high level of consideration for the factor.

Parking Availability

Suburban

Suburban tenants ranked parking availability as the most important factor in considering location with an average score of 4.4.

Tenants commented that their suburban location provided clients and customers with plenty of parking which is usually available outside or nearby the store entrance

Downtown

Downtown tenants ranked parking availability as a low consideration when determining location with an average score of 1.9. This is contrasted with suburban retail tenants who indicated parking availability as the most important factor for determining location, at 4.4. A number of downtown tenants indicated that insufficient parking exists in the downtown for their customers; however, ranked other factors such as proximity to clients, image / profile etc. as more important considerations in their location which outweighed this factor.

Discussions with businesspersons and leasing agents about the Spring Garden Road area indicated parking is not an issue for this district with the nearby Park Lane building parking facility usually having 200+ empty stalls. Few tenants locating to the area considered parking a real negative. Several leasing agents indicated that while parking is a 'pain' in the downtown, they did not believe that the parking situation was detrimental to retail in the area with parking an issue in most urban retail centres.

Parking was not indicated to be a problem for retail along Quinpool Road, with many side street parking opportunities available.

Parking Cost

Suburban

Suburban tenants were generally consistent in ranking parking costs at 3.9 making this the 2nd most significant factor behind parking availability. This contrasts with the responses from downtown tenants who ranked parking costs as the 2nd lowest factor in their decision to locate downtown.

A number of tenants commented that the suburban location benefits by offering free parking to their clients.

Downtown

Tenant responses revealed parking costs as a low consideration when determining location with an average score of 1.6, making this factor the second lowest ahead of green initiatives (1.5). While many tenants suggested that parking costs were high and noted that suburban parking was free, there were other considerations that led the business to be located in the downtown including a niche marketplace and serving the surrounding downtown businesses.

As with the availability of parking, leasing agents and business persons did not feel the cost of parking was detrimental for retail in the downtown.

Availability of Appropriate Space

Suburban

Suburban tenants scored availability of appropriate space at 3.5, making it the 3rd highest consideration. Discussions with market participants indicated that retail in HRM, and nationally, has been doing well in the last 3-4 years with per square foot rents 'roaring back'. These good times for retail have resulted in reduced vacancy levels which can make finding appropriate space in larger retail nodes difficult.

Downtown

Downtown tenants ranked availability of appropriate space as the 6th most important consideration with an average score of 3.5, similar to suburban tenants.

Discussions with leasing agents noted that boutique retailers tend to end up in the downtown because the availability of small spaces in suburban areas is limited. The major malls are getting rid of smaller stores (under 1,000 square feet) in favour of national brands. For the business owner who wants to open a small store, the options are limited.

Similarly, leasing agents indicated that the downtown does not have the space required for national brands. Buildings are older, premise spans are narrow, contiguous space is small and configurations unaccommodating. This dictates that larger stores will locate in the suburbs.



Green Initiatives

Suburban

Suburban tenants ranked green initiatives the lowest factor in determining location, indicating an average of 1.6. No tenants ranked green initiatives a 4 or 5.

Downtown

Similar to suburban tenants, downtown tenants ranked green initiatives as the lowest consideration, 1.4 with no tenants scoring the factor a 4 or 5.

Infrastructure

Suburban

Suburban tenant responses ranked infrastructure at 2.0, making this factor the 3rd lowest location consideration. Infrastructure was generally regarded as being similar in both locations.

Downtown

Downtown tenants scored infrastructure higher than their suburban counterparts (2.6). Several respondents indicated that telephone poles should be underground in the Spring Garden Road Area. Another knowledgeable market participant indicated that utilities (water, electrical) are in poor condition along Spring Garden Road, which has proved difficult and expensive for development.

Transit / Access

Suburban

Suburban tenant responses ranked transit/access toward the lower to middle end of the range (2.5) when considering location. Many retailers indicated that they serve and live in the surrounding community and do not rely on customers or clients that take public transit. A number of retailers indicated that transit and access were important for employees.

Downtown

Downtown tenants ranked transit/access as a moderate consideration in determining location (3.2), higher than suburban tenants (2.5). Much of the downtown area serves the surrounding office users, residential neighborhoods and tourism industry, although a high level of pedestrian traffic is generated by the public transportation network which is concentrated on the downtown.

Employee Preference

Suburban

Tenant responses scored employee preference at 1.9, making it the 2nd lowest factor in determining location ahead of green initiatives. Employees were considered to have less input given the importance of location in retail positioning.

Downtown

Downtown tenants ranked employee preference as a low/moderate consideration when choosing location (2.7). Some businesses factored more weight to employee preference than other companies but generally recognized that other factors, including proximity to clients, were more important considerations.

Employer Preference

Suburban

Suburban responses ranked employer preference as a moderate/high consideration (3.4). Smaller tenants generally ranked employer preference higher, especially in the case of family owned businesses that in some cases placed significant weighting on location relative to their residence, hence the location being more of a lifestyle choice providing for a short commute time.

Downtown

Downtown tenants attributed more significance to employer preference (4.1) than did suburban tenants. As with the downtown office responses, employer considerations were considered more important than employee preferences.

Proximity to General Retail

Suburban

Suburban tenant responses ranked proximity to general retail (complimentary or competing) as a moderate/high factor in determining location (3.5).

We note that some specific/specialty stores (destination retailers) ranked proximity to general retail as a low consideration in determining location as they considered the nature of the business didn't require the spin-off from complementing or general retailers being located nearby. Customers would make a specific trip to these stores to make purchases.

Conversely some smaller specialty stores sought a mall location specifically to be within the immediate proximity to other retailers and benefit from the high volume of foot traffic that would pass their store to attract customers and generate sales. A number of tenants within the mall



commented that their business was reliant on the customers running several errands at once under one roof as opposed to making specific trips to a particular store.

We note that since the summer of 2007 when Banana Republic opened at the Halifax Shopping Centre there has been an influx of other big name international retailers (Hollister, Swarovski, Sephora, Victoria's Secret, Apple Store). Real estate professionals commented that this opening positioned the mall as a high-end destination and created a 'snow-ball' effect of other larger retailers.

Downtown

Downtown tenants scored proximity to complimentary/other retail toward the upper end of the range at 3.8. Many downtown specialty store tenants commented that their location to surrounding retail and similar small specialty stores complemented their business when compared to larger format / chain retailers, and that their business would not be successful outside of a niche market.

Proximity to Airports Highways

Suburban

Suburban tenants ranked proximity to airports / highways as a low consideration for determining location, indicating an average score of 2.0.

Smaller stores with a client base throughout greater HRM and beyond ranked location to highways as a significant factor compared to businesses whose clientele was within the immediate area, with ease of access to the store being a significant consideration in location for these tenants.

Downtown

Tenant responses averaged 1.8, indicating a low consideration to location of airports and highways, making this factor the third lowest consideration ahead of parking costs. This response is lower than suburban tenants, which also scored proximity to airports and highways as a low consideration (2.0).

Proximity to Restaurants/Banks/Services

Suburban

Suburban tenants scored proximity to restaurants / banks and services toward the middle of the range (2.8). Service industry and retail tenants are generally considered to be complimentary by generating foot traffic which benefits other retail.

Downtown

Downtown tenants ranked proximity to restaurants, banks and services as a more significant consideration for choosing location (3.6). Conversely, suburban tenants scored proximity to restaurants, banks and services as a lower consideration (2.8)

Travelling Time (Commuting)

Suburban

Suburban tenants scored travelling time toward the middle of the range, indicating an average of 2.9. These tenants also indicated parking cost and availability were important considerations, intended to make a shopping experience as easy as possible.

Downtown

Downtown tenants ranked travelling time/commute time as a moderate consideration (3.0).

Proximity to Clients

Suburban

Suburban tenants scored proximity to clients toward the middle of the range, indicating an average of 3.2. Responses for this category were wide ranging with some tenants serving surrounding communities and others, typically located within larger retail centers, relying on the draw of the node.

Downtown

Downtown tenant responses ranked proximity to clients as a 4.5, making this factor the most important consideration for tenants choosing location. Client bases varied from pedestrian traffic along Spring Garden Road to surrounding residential along Quinpool Road to cruise ship and tourist traffic along Lower Water Street. Only two tenants rated proximity to clients as less than 4, both are considered destination retailers.

Discussions with leasing agents and other market participants indicated there is a high level of service retail in the downtown, particularly in the Central Business District. This tenant profile relies on nearby residential and office users and such tenants locating to downtown areas placed considerable significance on this proximity to clients and customers.

Image/Profile Perception

Suburban

Suburban tenants ranked image/profile perception as a moderate consideration, indicating an average score of 3.1. Tenants made comments about locating outside of the downtown because of the



overall vibe concerning a number of vacant spaces, deteriorating buildings and homeless people outside of stores which were cited as ‘harassing potential customers’.

Downtown

Downtown tenants generally ranked image/profile perception as a major consideration, indicating an average score of 4.3. This ranks this factor as the second most significant after proximity to clients. No tenants ranked this factor a 1 or 2. In comparison, image/profile perception was a moderate consideration for suburban tenants.

Additional Comments

Discussions with market participants indicated that the condition, size and configuration of retail spaces in the Central Business District and surrounding downtown, including Spring Garden Road, do not typically accommodate large ‘big box’ formats. Apple and Victoria’s Secret reportedly looked at Spring Garden Road for their first market locations but no appropriate spaces were available. These organizations chose to locate in the Halifax Shopping Centre as a compromise.

The new Trillium on South Park Street was noted by way of example as an opportunity to create a space that could accommodate a big box retailer; unfortunately the column spans of the building could not accommodate the floor plan of a larger store. Another prominent leasing agent acknowledged that the new convention centre could be an opportunity to create space from scratch that could showcase larger retailers in the downtown.

It was commented that large national retailers like to see a city has a plan for retail beyond restaurants and cafés as part of mixed use developments. The market should be deciding what retail, if any, exists within the downtown and not HRM, which does not monitor the health or strength of the retail market.

Overall views were mixed as to the benefit of national retailers in the downtown. A number of smaller tenants stressed the importance of locating away from larger retailers that “mass produce”. These operators felt that the discounted merchandise available from these larger stores would erode business. A prominent business person in the Spring Garden Road area acknowledged they would rather see a national retailer than a vacant storefront but the local boutique retailers are part of the district. Conversely a small tenant along Lower Water Street commented that 30 years ago Scotia Square used to have larger brand name retailers and Barrington Street was the place to shop and now it’s deserted. This retailer wanted to see national retailers return to the downtown for the foot traffic they produce.

A retailer on Lower Water Street indicated that the decision to locate downtown was a 'social decision' because the individual could 'not stomach going to Dartmouth Crossing and pulling more people out of the Downtown'.

Another prominent leasing agent indicated zoning bylaw restrictions along Barrington Street and surrounding area are too limiting and that additional services should be allowed, noting that medical and fitness uses are prohibited on ground floor space. This individual noted that the area is the service district for the downtown office buildings and people 'do not want to shop along Barrington Street'.

A number of suburban tenants remarked about the perception of homelessness downtown as a decision to locate elsewhere. A tenant along Sackville Drive remarked that Downtown Halifax has a bad 'vibe' which was described as 'homeless individuals' that 'harass' customers. The tenant indicated it would not consider a move downtown regardless if taxes were reduced because parking would still be an issue.

A businessperson in the Spring Garden Road district acknowledged the presence of panhandlers and homelessness in the area but commented that it is part of the 'social fabric' of the district and that panhandling goes beyond seeking strictly money but has social benefits for those individuals. Many of the retailers know and support the local panhandlers.

Another tenant indicated they would not move downtown unless they could own the building, which is why the business has not moved to a mall location.

Retail Area Commentary

Suburban and downtown retailers differ in their location considerations which are based primarily on the market each serves. We have provided a brief description of the type of tenants within these locales and a summary of findings by area.

Lower Water Street

Retailers on or near Lower Water Street consist of small specialty stores that cater predominately to tourists from cruise ships and business conventions. From the tenants interviewed within this location, proximity to clients and location to restaurant / hotel / retail amenities were major factors that influenced the decision for this location. Retail tenants also commented on the importance of location to the boardwalk whereby the greatest volume of foot traffic exists. These customers shop at a variety of stores, and dine at cafes / restaurants rather than a customer specifically travelling to one store within a bulk retail or mall setting. Retailers within this area that rely heavily upon tourists



from the cruise ships and in some cases may only operate on a seasonal bases from usually May to December.

Barrington Street

A number of small specialty stores are located along Barrington Street with a number of retailers owning their own buildings with others that have operated from the current location for 50 plus years. The consistent response for locating in this location was proximity to clients. Retailers commented that they relied upon a mix of tourist and local shoppers, with their established location being well known to their local clientele. These smaller retailers felt they could not compete within a mall or suburban retail center setting where larger stores with substitute products offer a variety on a large scale with more aggressive discounts and store sales / specials.

Discussions with leasing agents indicated that the Barrington Street district services the downtown office and residential community.

Spring Garden Road

Spring Garden Road is the busiest pedestrian street east of Quebec and is home to a number of high-end retailers, bars and restaurants. Vendors in this area commented that the main reason for their location on Spring Garden road and immediate area was the proximity to clientele and proximity to complimentary retail including restaurants and banks. Businesses acknowledge the immense benefits of the substantial pedestrian traffic and the general consensus was that parking, although sometimes difficult, is not bad for business.

Quinpool Road

Retail locations along Quinpool Road are generally located in low-rise commercial buildings and converted family homes with most businesses being local. Retail interviewees within this location generally made comment of the importance of locating their business near surrounding residential development. We are aware that it has been many years since the last retail store opened on Quinpool Road although many restaurants have come and gone, a few established locations continue to do well.

Portland Street / Dartmouth

Retailers within this area commented on proximity to clients as being the most important determinant for their location. Retailers also made note that overall costs (face rent, operating costs and taxes) were too high and parking was inadequate; however, they were prepared to continue operating in the location given the established history of the business and the location to clientele.

A recently opened retailer commented that their location within Dartmouth was based on speculation that the Kings Wharf development would bring in a greater population of potential customers to the Downtown Dartmouth area.

Agricola Street

A number of older smaller retail stores exist along Agricola Street intermixed with residential and industrial uses. The uses predominately cater to the surrounding residential community. The decision to locate on Agricola was generally chosen based on a desire to be near the Downtown Halifax core, while paying a comparatively discounted gross rent. Many buildings on this street are owner occupied and this is not a typical investor market.

Suburbs

The suburban market considers a large area with many different types of retail, including Mic Mac Mall, Mumford Road retail, Robie Street retail and Clayton Park retail. Retailers and service providers located in the larger power centres, retail nodes or malls depend on synergy with surrounding uses and the draw of shoppers. Customers and clients are generally provided with free and abundant parking. Service providers and retailers in the more peripheral areas typically depend on the surrounding communities and parking is usually also free.

Retail Interviews Analysis and Conclusions

Notwithstanding the above comments, it is apparent that the most considered factor for retailers that located in the suburbs was the availability and the cost of parking. Businesses felt that to be competitive customers needed to be able to drive up close to the entrance and park for free. These considerations were given little weight by downtown retailers who felt that being close to a client base in the downtown and the perception of a downtown address were the most significant considerations.

Property taxes were ranked 9th of 17 factors by suburban retail tenants with an average score of 2.9. Face rent, the highest ranked component of occupancy cost, was rated moderate at 3.2. Downtown tenants ranked property taxes 13th of 17 factors with an average score of 2.1. Face rent, the highest ranked component of occupancy cost, was rated moderate at 2.6 by downtown tenants and 3.2 by suburban tenants.

The collected tenant responses and discussions with real estate professionals and other market participants indicates that property taxes are not one of the main factors driving retail tenant location decisions within HRM.



Government Occupancy

All three levels of government occupy space both in the downtown areas and in the suburbs. The reasons for location, particularly for Provincial and Federal Government, is often both political and cost sensitive. We understand that HRM's move to Dartmouth was somewhat political with the amalgamation, although if the downtown, particularly Halifax, is to continue to be the Hub of Atlantic Canada, a single building housing most, if not all, of the HRM departments would go a long way towards bringing more people to its downtown and help its renewal.

The Federal Government is particularly cost sensitive and as new space is required, buildings have been constructed in suburban areas because of the cost associated with downtown areas. This philosophy is the same with the Province which is being exacerbated by the fact that they are decentralizing some of their departments and locating outside HRM.

The typical manner in which government decides where to locate is to identify the specifications that are required for the building finish, parking, etc., various locations are suggested and the location which provides the least expensive result is where they generally locate. Most of these locations are outside the downtown areas.

In order to strengthen the downtown areas, a joint policy from all levels of government to locate downtown, or at least in the Regional Centre, would make a significant improvement to the current situation.

The various levels of government also own large parcels of land in downtown areas which are currently used for parking. The development of these sites will improve the downtown.



Study of Commercial Taxes as a Driver for Business Location Decisions
Phase I
Project No. 100007

DEVELOPER INTERVIEWS



Developer Interviews

Preamble

As part of this assignment we have conducted interviews with eight of HRM's most prominent developers to ascertain from their perspective those drivers that motivate developers to build and tenants to locate in suburban or downtown areas of HRM. The developers interviewed have extensive operating history in HRM and a number have experience in other Canadian and US centres. The developers interviewed have experience in many different asset types including office, retail, industrial, residential and hospitality and are active in downtown and suburban locations. All have been active in more than one real estate type and all have developed, owned, and or managed properties on behalf of their personal companies or for clients. The interviews included discussion of how HRM has changed over the last several decades and what factors contributed to the current landscape. The developers voiced their opinions on the health of the HRM market and shared their insight into what catalysts would promote positive change.

Interview Responses

Our discussions with the developers indicated a general consensus on a number of issues. The developers were in agreement that the HRM office landscape has changed significantly since the 1980's, which was discussed earlier in this report on page 5. Most of the developers felt that downtown areas have been in a state of decline for many decades which has been a result of a changing tenant base combined with decades of unintentional neglect. The changes in the downtown created a situation where many businesses see no compelling reason to locate in downtown areas. This has created two types of office tenants in the HRM market: those which want to be in the downtown for business reasons (which includes perceived prestige) and those which do not need to locate in the downtown and can, and often do, move to suburban locations. Most of the developers agreed that one of the main forces driving office tenants to the suburbs is employee preference for easy access, convenience and cheap/free and abundant parking. Employers are placing more consideration on those factors which will attract, retain and motivate employees which will ultimately help the bottom line. With respect to occupancy costs, nearly all of the developers indicated that cost differential is not a factor; although suburban office space, for a similar price, is often newer and shinier. One of the developers, who focuses on suburban development, explained that the small size of the HRM urban core means easy commutes and accessibility are possible from the already urbanized areas of the city. This developer agreed that employers want to make employees happy but also indicated that for those businesses that do not need to be downtown, when faced with price pressure, these tenants will move to the suburbs.

The developer's general agreement on employee centered factors is important as it highlights a major motivator for location decisions which was echoed by tenant and real estate professionals in their respective interviews. When asked what conditions created a situation where employees prefer the suburbs the responses were again similar. A culture centered on single-family homes, bigger lot sizes, two car garages and new and shiny houses at affordable prices have driven Haligonians away from the downtown and Regional Centre. As new population bases formed, retail appeared to service these nodes which was then followed by office. A number of developers commented that this unplanned and planned urban sprawl has created a weaker urban core (downtown) which stresses the tax base and jeopardizes HRM's position as the capital of Atlantic Canada.

Most developers were in agreement that cost, as a cost to the business/company, was a lessor concern for tenants choosing between a downtown or suburban location. Parking was still recognized as a cost, but one that is not generally borne by the business and therefore a decision to relocate based on parking cost reduction is an employee centered decision. As part of total occupancy cost, most developers felt that property taxes were not considered to have a considerable impact on tenant location decisions.

When asked what motivates developers to build in the suburbs the consensus was that suburban office and retail development is following demand. The majority of developers felt there is not sufficient demand to support downtown commercial development. When the developers were asked if they would build office or retail today in the downtown, the consistent answer, from all but one, was 'no' – except from those developers which have particular advantages which has resulted in a number of projects currently proposed; although without these advantages these developers indicated they would not build in the downtown.

While there is low demand for downtown office space, there is good demand in the suburbs, where it is also easier and cheaper to build. Developers cited higher rents are necessary to incite new office construction in the downtown and referenced larger cities such as Calgary, Toronto and Montreal. Rental premiums need to be 30% - 40% higher in the downtown compared to the suburbs, when in reality there is little difference in net rates in the HRM market. Office in downtown Calgary is fueled by the oil and gas industry, which demonstrates its success by locating in the prominent downtown. Downtown Toronto, which has been reinvigorated in the last two decades, is the center of the Canadian financial markets. Montreal is home to the head offices of many French speaking corporations. In HRM, the government at all levels, and the former regional and head offices of many corporations, have moved out or have a diminished presence. The net rent needed to justify new downtown construction of Class A office space would be on the order of \$24 / \$25 per square foot. This is in addition to operating and tax recoveries of \$15 per square foot which results in a gross rent of \$40 per square foot or more. Suburban office projects can be completed on net rents of \$16 to



\$18 per square foot with operating costs in the region of \$10 per square foot for a total rent of about \$25 to \$30 per square foot, as opposed to \$40 per square foot in the downtown. Sentiment from most developers was that there is currently not enough demand for office space in the downtown at \$40 per square foot. These developers noted that they can obtain better investment yields elsewhere, including suburban office projects. Purdy's Wharf was built on a proforma of \$18.50 per square foot face rent in the mid 1980's, about the same figure that is achieved today. Comparatively, rent in the suburbs has escalated many times over, fuelled by increasing demand.

In addition to downtown construction being more expensive, downtown development has many more policy and planning objectives to meet compared with suburban projects, where construction commences shortly after plans are submitted for building permits. Additional design work or reworking plans can add considerable time to a project which can cause a development to lose momentum in an industry where timing is of high importance. Added fees incurred downtown, including municipal fees, such as levies for street closures, add to development costs and combine to make downtown projects less economical. These added costs to development downtown increase the amount of rent that has to be charged to make the project viable. The consequence of higher rents reflects directly on higher values to downtown projects. Higher values lead to higher municipal assessments, which, with a constant commercial tax rate, leads to proportionately higher taxes, exacerbating the spread between total gross rents in the downtown areas to the suburban areas.

When asked about land prices in municipally owned parks, every developer agreed the municipality sells land below market value. It was also generally agreed that even with a substantial increase in the price of land in these parks, developers would still build because of the good demand. It is noted that the cheaper land allows for developments to provide free or cheaper parking (when compared to downtown areas), where parking is a considerable factor in attracting many tenants.

The developers were all in agreement that a successful and vibrant core is necessary for the betterment of HRM. Solutions were generally consistent and focused on creating a downtown where people want to live and work. The means to this end included more, denser residential development closer to the downtown areas of the city, although a handful of initiatives were proposed to foster this goal. We have grouped the initiatives into three general categories: financial, planning and service and amenity initiatives. Some of the initiatives could overlap between categories. These initiatives, which are discussed in more detail in Phase II of this report, include combinations of the following:

Planning Incentives

- incentives for downtown and Regional Centre residential development
- more density in areas surrounding the Regional Centre
- fewer hurdles, wait time, fees for downtown and Regional Centre development (easier to build)
- moratoriums and greenbelts on suburban development and sprawl
- more efficient planning policies
- removal of low intensity industrial land uses from Halifax Peninsula

Financial Incentives

- tax holidays for downtown and Regional Centre residential developments
- disincentives for suburban residential / office development
- incentives for residential condominium and townhouse buyers in the Regional Centre

Service and Amenity Incentives

- better transportation networks (need to change car oriented culture, use water to our advantage, rail lines, active transport)
- more abundant and affordable downtown parking.

Developers agreed that the downtown areas need to be more attractive to residents as employers are becoming more and more influenced by employee preferences. Key issues which must be addressed are those centering on the employee, which are namely: availability and cost of parking, traffic, commute time and housing affordability and suitability. A number of developers commented that the average worker cannot afford to live downtown and that a variety of housing options are needed to accommodate single households and larger families. Most commented that more planned housing developments, including higher density multi-residential, would increase supply and create more affordability. The consensus was that more people in and around downtown areas would bring back retail and offices uses.

A number of developers felt that the Province and HRM need to work together to rehabilitate downtown areas and to bring/create industry in the core of the city (Central Business District), with specific mention of the FIRE industry as well as European companies looking to avoid uncertain economic climates at home.

Some of the developers with office holdings downtown noted they are looking for non-conventional tenants that need to be downtown (example: language schools) while others have been making international trips in efforts to secure tenants which traditionally locate in downtowns. The reality is that landlords must find tenants that need to be in downtown areas for business reasons. The other



segment of the office market, those office users which place more weight on employee preferences, are not compelled to locate downtown because most of their employees do not want to be located downtown. To bring these users back to the downtown, those factors which appeal to employees must be improved.

Most new commercial developments in the downtown do not attract new tenants but tend to take existing tenants from downtown areas leaving vacant space that needs to be backfilled. We understand that at least one downtown owner is considering converting an existing office building to a residential use rather than cope with the lack of demand for office space.



CONTINGENT AND LIMITING CONDITIONS

1. This report is prepared at the request of the SUP Taxation Working Group, c/o Halifax Regional Municipality for a study of commercial taxes as a driver for business location decisions and is to be used by the SUP Taxation Working Group to assist in strategic planning. It is not reasonable for any other person or corporation other than the SUP Taxation Working Group to rely upon this appraisal without first obtaining written authorization from Altus Group Limited. There may be qualifications, assumptions or limiting conditions in addition to those set out below, relevant to that person's identity or their intended use.

This report is prepared on the assumption that no other person will rely on it for any other purpose and that all liability to all such persons is denied.

2. While expert in appraisal matters, the author is not qualified and does not purport to give legal advice.
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4. Market data has been obtained from documents at the Land Registry Office, or as reported by the Real Estate Board. Interviewee responses have been collected in a confidential manner and will not be released.
5. The compensation for services rendered in this report does not include a fee for court preparation or court appearance, which must be negotiated separately. However, neither this nor any other of these limiting conditions is an attempt to limit the use that might be made of this report should it properly become evidence in a judicial proceeding. In such case, it is acknowledged that it is the judicial body which will decide the use of the report which best serves the administration of justice.
6. Other assumptions, limiting conditions or clarifications are listed throughout the report as needed.



CERTIFICATION

Study of Commercial Taxes as a Driver for Business Location Decisions - Phase I

We certify that, to the best of our knowledge and belief:

- The statements of fact contained in this report are true and correct.
- The reported analyses, opinions, and conclusions are limited only by the reported Extraordinary Assumptions and Assumptions and Limiting Conditions, and are our personal, unbiased professional analyses, opinions and conclusions.
- We have no present or prospective interest in the issue that is the subject of this report, and we have no personal interest or bias with respect to the parties involved.
- Our compensation is not contingent on an action or event resulting from the analyses, opinions, or conclusions in, or the use of, this report.
- To the best of our knowledge and belief, the reported analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the Canadian Uniform Standards.
- We have not knowingly withheld any comments or observations which might affect the opinions of value stated in this report.
- We have the knowledge and experience to complete the assignment competently.
- No one has provided significant professional assistance in the preparation of the report.
- This report is subject to review only if required by the Appraisal Institute of Canada and the Nova Scotia Real Estate Appraisers Association.
- We have met the mandatory professional liability insurance requirements of the Appraisal Institute of Canada.
- We are certified under the continuing education program of the Appraisal Institute of Canada.
- We are members in good standing of the Appraisal Institute of Canada.

Original Signed

Charles J. L. Hardy, B.Sc., FRICS, AACI
NSREAA REGISTRATION NO. 024020

Original Signed

Robert Harris
Santilli
2013.02.15
16:57:34 -04'00'

Robert Santilli, B.Comm, AACI
NSREAA REGISTRATION NO. 905305