

Intellectual Property

VOLUME 2 - FALL 2009

As fall makes its way across Western Canada, here are a few facts about the real estate investment climate that won't leave you feeling left out in the cold. As well, in this issue, we are proud to announce the launch of our new website! We hope you will find it both informative and helpful. Please be sure to check back regularly for updates to our news page where we will be posting news articles and information relevant to your real estate investments.

Regards,



Everett Kearley, P.Eng.

Chairman, Millennium III Group of Companies

News You Need:

- Oilsands make up about five per cent of Canada's overall greenhouse gas emissions, and less than one-tenth of one percent of the world's emissions.
- Every dollar invested in the oil sands creates about \$9 worth of economic activity, with one-third of that economic value generated outside Alberta - in Canada, the U.S. and around the world.

"A pessimist sees the difficulty in every opportunity; an optimist sees the opportunity in every difficulty."

- Sir Winston Churchill

Comparing Investments

Now that we appear to have passed through one of the worst recessions since the Second World War, many of you are wondering about the state of your investment portfolio and what your strategy should be for the future.

The Toronto Stock Exchange, (TSX), while it is up 44% since its lows of last March, is still down 28% from its peak of 15,073 in the summer of 2008. Stock markets in most developed countries show similar trends. These unhappy results are reflected in most equity based mutual fund portfolios and individual stock investment programs. The market eventually will recover, but it would be nice to hold some investments that buffer the kind of gut-wrenching shocks which equity markets put us through over the past year, and in previous major selloffs.

Fixed income investments like bonds and GICs are fine for those who understand that market. Right now, however, is not a good time to invest in these. Long-term bonds already have given up much of their trading profits as interest rates dropped over the past year or so. Inevitable interest rate increases will only see these instruments drop in value. In the meantime, current interest rates on short-term fixed investments will generally not keep up with inflation.

Commodity markets usually are not followed well enough by outside traders to consistently make a profit. They also carry the risk of huge losses over and above initial investment. Precious metals, while usually a good

**Please visit our
new website at
www.millennium3.ca**

hedge against disaster or economic catastrophe, do not pay any interest and, in recent decades, have not kept their values up with inflation. Gold, which last touched \$1,000 (cdn) per ounce in the early 1980s, has only recently reached that level again, while its value has been diluted to less than half by total inflation of over 100% since 1980.

Exchange traded funds and derivatives are all new to the market and have not yet proven themselves as good long-term investments.

That leaves real estate. Individuals who invest in smaller residential properties

Our current project

Introducing Centre 137, our latest commercial real estate syndication.



Strategically located at one of the principal intersections in northeast Edmonton, this project offers outstanding potential for income and value growth.

Contact your investment advisor, or our Saskatoon office for more details of the project which are also available at www.millennium3.ca.



www.millennium3.ca



Northumberland Capital Corporation is a member of the Millennium III Group of Companies.

(rental houses, condos, or duplexes) usually do very well over time, as real estate values tend to stay close to or lead inflation. These investments are not without their challenges, however; rent collection problems, vacancies, misbehaving tenants and ongoing maintenance programs with attendant contractor difficulties are just some of them. Knowledge of and credibility in the mortgage market is also a requirement, and the law, in most cases, favours the residential tenant. This type of investment, while potentially rewarding, certainly is not worry free.

Syndicated and professionally managed commercial real estate (retail malls, office buildings, and industrial complexes), however, provides the advantages of real estate investment without most of the attendant problems for investors. The most advantageous form of property syndication is the limited partnership. This type of organization features a general partner that assumes all the risk and responsibilities of holding title to the property on behalf of the partnership and any number of limited partners. The limited partners provide the equity in the partnership and, without risk of other than their initial investment, participate in all the advantages of beneficial property ownership including income growth, value appreciation, and tax savings. Some of these favourable investment features are outlined below:

1. Stability. Commercial real estate property values are directly related to net rents as tenants also pay all the operating costs of the property. These net rents are mandated in three year to 10 year leases, usually with incremental increases built in. Hence, the property value is not subject to short-term fluctuations in the stock markets but follows its own long-term trend. As

well, commercial tenants, in renewing their leases in anticipation of increasing profits, are prepared to accept lease rate increases based upon these expectations. During the worst months of this recession we had the anomaly of tenants renewing 5 year leases with built in 30% or higher rent increases over the term, while the stock market was going in the opposite direction!

Another stabilizing factor in investment in commercial properties is their general tendency toward multi-tenant occupancy. A one tenant vacancy in a 10-tenant strip mall of approximately equal size bays equals only a 10% vacancy rate while one tenant gone from a single family rental dwelling equals 100% vacancy.

2. Leverage. Millennium III's real estate limited partnerships initially consist of approximately 50% equity to 50% mortgage debt. As well, initial tax write-offs further magnify this advantage by reducing the investor's initial equity cost. These factors combined provide a leverage factor or ratio of about three to one for property value to equity. This is far better than most other types of investment where one to one usually is the rule. This leverage is one of the main reasons our syndications have been able to offer average returns on investment of 15% - 20% per annum when rents and property values are increasing at only 6% annually.

3. Debt Reduction and Value Enhancement. While many retirement type investments such as annuities run out over time as the money is exhausted, commercial property investments keep on giving, prospectively forever. Over the first 12 or so years of our limited partnerships, mortgage debt is fully retired. This, of course, in addition to inflation related increases in rents, leads

To receive future editions of this newsletter electronically, please advise us via e-mail to: dawnh@millennium3.ca

to value enhancement of the investment property. After debt is retired, rents continue to increase, as does income paid out to investors. If the property is well managed and maintained, this enhancement of income and value can continue indefinitely. As well, through various tax planning strategies, limited partnership units can be transferred to spouses and inter-generationally. Thus, instead of spending your kids' inheritance, you can have your cake and eat it too.

4. Barriers to Entry. Most investors cannot afford to purchase a major commercial property on their own or to arrange mortgage financing for it. We can! As well, through our property management subsidiary, Fortress Properties Inc., we can provide the type of experienced, professional administration commercial properties require, and have been doing this for over 28 years. We also have wide exposure to the commercial real estate market and a good knowledge of the Landlord and Tenant Act, which tends to favour commercial property owners. These assets are necessary if a commercial property project is to succeed and prosper.

Given the current uncertain economy, now is a good time to seriously consider commercial property investments for your portfolio. We will welcome your inquires at any time and will be glad to assist you with further information.

