Intellectual Property

VOLUME 6 - SPRING 2012

How the West Has Won

In February, Statistics Canada released the results of the 2011 national census. Canada continues to lead the G8 countries in the rate of population growth. The population increased by 5.4% from 2001 to 2006 and by 5.9% from 2006 to 2011. Western Canada is a predominant theme in the report, with most of the attention focused on Alberta and Saskatchewan.

For the first time in census history, the combined population of British Columbia and the three Prairie Provinces exceeds that of Quebec and Atlantic Canada. Alberta, BC, and Saskatchewan led the nation with growth rates of 10.8%, 7.0%, and 6.7%, respectively.

With a growth rate of 12.6%, Calgary was the top census metropolitan area (CMA) in the country. Edmonton was a close second at 12.1%, and Saskatoon took the number three spot with a rate of 11.4%.

Statistics Canada defines a "census agglomeration" (CA) as one or more adjacent municipalities centred on a population centre, known as the core, where the core population is at least 10,000. 10 of the 15 CA's with the highest growth rates were located in Alberta.

In terms of GDP increases for 2011, earlier estimates had Saskatchewan in the lead at 4.5%, with Alberta following at 4.0%. According to Statistics Canada, both provinces exceeded these estimates. Alberta was the top province, with an increase of 5.2%, and Saskatchewan ran a close second at 4.8%. The growth sectors cited in the report included energy, agriculture, mining, manufacturing, construction, and retail trade.

The growth in the population and the economy bodes well for commercial real estate investments. More people and more money results in more demand for products and services offered by businesses requiring stores, offices, and warehouses. As the demand for commercial space increases, so does the rental income generated by that space.

Demand for commercial space in Saskatoon and Edmonton remains strong. Although vacancies do exist, they are generally not prolonged. Existing tenants are renewing their leases with escalation clauses, ensuring rental income increases over the terms of those leases.

In addition to the good news about Saskatoon and Edmonton, a number of our other properties stand to benefit from the growth.

- **Martensville Shopping Centre** is located at the main entrance to Martensville, which boasts a growth rate of 55.0% and is the second fastest growing municipality in Canada.
- **The Brunel Building, Allan Plaza, Gateway Centre,** and **Leduc Towne Centre** are all located in the City of Leduc. With a growth rate of 43.1%, Leduc occupies the ninth spot on the list of fastest growing municipalities.
- **Centre Plaza** occupies a prime location in Sherwood Park, which is in Alberta's third largest municipality, Strathcona County. The growth rate for Strathcona was 12.1%.
- **The Bessemer Building** and **Plaza 104** are located in Fort Saskatchewan, where the population grew by 27.4% from 2006 to 2011.
- **Plaza 44** is in Lloydminster, which, with a growth rate of 14.0%, is in tenth place on the list of fastest growing CA's.
- **Mirror Lake Plaza** is located in Camrose. Camrose made the fastest growing CA list at number 15, with a rate of 10.6%.

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Our Latest Offering

Plaza 104 is situated in the downtown area of the vibrant city of Fort Saskatchewan at the corner of 104 Street and 99 Avenue, a primary thoroughfare. The property features a mix of street level retail and second floor office space, with Servus Credit Union as the anchor tenant in the largest of ten bays.

CIRCLE TRADE SQUARE SOLD!

288.46% After-Tax Return on Investment!

In December, the limited partners in Scott Properties Limited Partnership decided to sell Circle Trade Square. Since their initial investment, the property value had appreciated considerably and resulted in an after-tax return of almost 300%!

GRAPHIC EVIDENCE

In the article entitled "The Financial Treadmill" in our last edition (Volume 5) of Intellectual Property, we summarized the performance of the S&P/TSX index for the 10 years from mid-2000 to mid-2010. This served as a proxy to illustrate the lacklustre performance of the Canadian equities markets, whether one invests directly or through mutual funds, relative to commercial real estate gains over the same period.

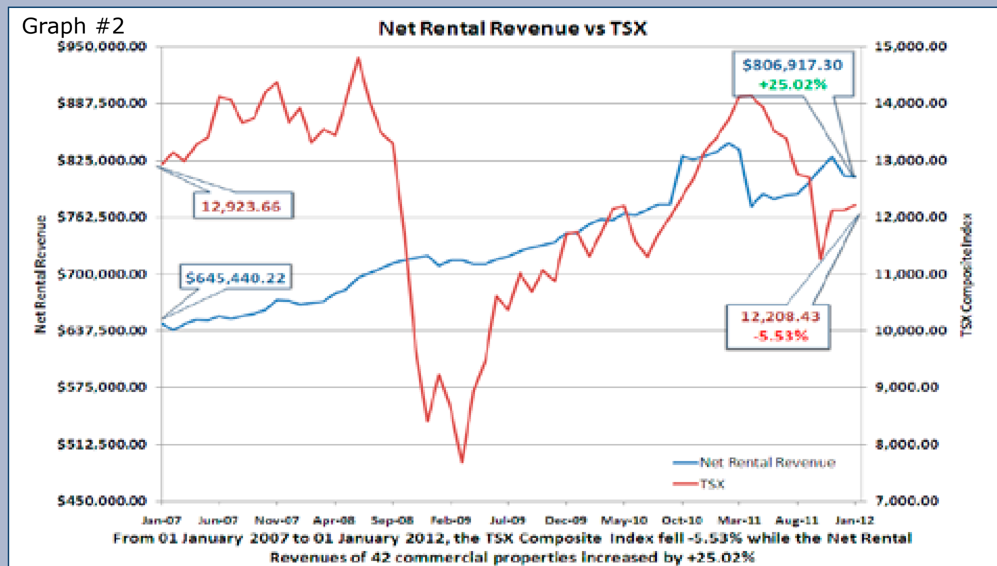
Upon reviewing that article, we decided that a graphic presentation of these two investment vehicles would help highlight their differences from an investor's point of view. Accordingly, we have produced two graphs.

Graph #1 covers almost 12 years of history of the TSX and its predecessor, the TSE, back to April 2000. If you follow the dotted line across, it shows the TSX rising by 0.65%, or .06% per year, over approximately 11 years. Enough said about this type of return in our previous letter.

Graph #2 shows the S&P/TSX performance over the five-year period from January 2007 to January 2012 compared with the aggregate net rental revenues generated by a portfolio of 42 of our commercial properties. The property portfolio is consistent throughout the period—acquisitions and dispositions were excluded from the data. Again, the graph shows a simple story; the S&P/TSX dropped 5.53% during those years while the aggregate commercial rents increased by 25.02%, over a 30% difference in performance. With the exception of an unusual bonus payment that we received over several months in 2010-2011, the net rental revenue curve shows a steady up trend whereas the S&P/TSX has been all over the map. Since January 2012, the aggregate net rental revenues have continued to climb in a steady manner while the S&P/TSX continues its choppy course.

At some point, it is anticipated the TSX will settle down to a long-term growth pattern again – but 12 years has been a long time to wait for this to happen, and Europe is likely to be in financial turmoil for some years yet. In the meantime, income and concurrent property values in the buoyant commercial real estate market in Western Canada are increasing at about 5% a year, which is multiplied for Millennium III investors by approximately 3:1 leverage available from mortgage financing and income tax write-offs in our usual project offerings.

In view of the foregoing, for which the graphic evidence accompanies this article, we continue to repeat our investment mantra that, in these troubled times in the equities market, every investment portfolio should contain a substantial portion of well-located and well-managed commercial real estate.



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