

## ST. JOHN'S: FIVE CENTURIES OF OIL



Photograph Courtesy of City of St. John's.

It was foggy, a clammy mist which seeped through their threadbare garments to chill the very marrow in their bones. Miserable, cold, wet, and stinking of fish, they cautiously edged their boat through the narrow mouth into the welcoming bosom of St. John's harbour. That was around the year 1497: since those first Europeans carelessly kept no records, our assumption about the weather is necessarily based on the balance of probabilities: the welcome though, is not.

### **In the Beginning**

They came for the cod, this linguistic melange of Basque, French, Spanish, Portuguese and English; their destination the prolific breeding and feeding grounds of the Grand Banks, off the Newfoundland coast. Here the cold, southbound, Labrador Current clashes with the warm, northbound, Gulf Stream over the shallow North American continental shelf. The shape of the sea bed lifts the rich flow of nutrients to the surface to create a smorgasbord for Atlantic cod, swordfish, haddock and caplin, as well as shellfish such as scallop and lobster. At first the fisherman did not settle, St. John's was only their summer home: a place to salt, dry, store and trade their catch before heading home.

During the late 1500s British naval power grew to dominate the globe and with it their presence in the Newfoundland fishery, particularly the area centred on St. John's, ranging from Cape Bonavista in the north to Cape Race in the south. By the early 1600s the first permanent settlers arrived, a hardy family named Oxford, who probably established their home in an area west of the street now called Beck's Cove, on the north side of the inner harbour.

The 1600s saw St. John's develop as the major commercial and service centre for the Newfoundland fishery with wharves, warehouses, whorehouses and alehouses along what is now Water Street, the oldest commercial street in North America. (Quartier Petit Champlain in Quebec City claims to be the oldest commercial *district* in North America: Quebec was founded in 1608 ... the Pilgrim Fathers meanwhile were still saving their pennies for their boat ride to America ...). The population of St. John's increased only slowly, the advantages of a Newfoundland winter not yet being readily apparent. It did not stop nations fighting over the settlement however: the Basques had captured it from the French in 1555, and in June 1665 the great Dutch naval strategist Admiral De Ruyter captured it from the English during the second Anglo Dutch war (they had just finished their first and would shortly commence their third). Tired of being beaten by the Dutch, the English tackled the French instead, frequently using St. John's to limber up, during the late 1700s and 1800s, before finally recapturing it from the French in 1762. All of this nastiness had a sobering effect on population growth and by the late 1700s only a few thousand stout souls called St. John's home, up from about 700 at the beginning of the century.

In 1791 King Louis XVI succeeded to the French throne and decided to assist the Americans in their revolution against the British. These hostilities ended with a victory to the Americans, codified in the 1783 Treaty of Paris. The King's subjects were so impressed they mounted a revolution of their own, celebrating their success by lopping off his head with a guillotine on January 21st 1793. It may not have been the King's finest hour: but it ushered in an era of prosperity for St. John's, thanks in part to Napoleon Bonaparte, a little man much revered in France, and greatly reviled in Britain (and elsewhere). Following the French revolution, there began a series of wars with France which would culminate in the Napoleonic Wars, a conflagration which would engulf much of Europe, and whose impact would extend across the Atlantic to this continent, and beyond. France was continuously at war with Britain from 1793 to 1802. Following a brief respite they were back at it again with the Napoleonic Wars (1802 to 1815). The wars created a demand for salt fish: St. John's boomed. As the price of fish increased so did immigration, mainly from Ireland, as people took advantage of high wages fuelled by escalating fish prices.

By the end of the wars in 1815, St. John's population was approximately 10,000. Although there were fires in 1816 and 1846, an all too common event in urban areas during the eighteenth and nineteenth centuries, the town was rebuilt.

By 1888 St. John's population stood at approximately 30,000, and the town was granted municipal government status. It boasted electric street lights on the main roads and a public water supply. Four years later disaster struck: through a combination of bad luck and incompetence fire consumed two thirds of the town, including the central business district and all of the wharves. In just twelve hours, a small hay fire in a stable swept out of control, killed three people, rendered 11,000 homeless, and caused \$13 million in property damage most of it uninsured. The community, with help from the Newfoundland and Labrador, Canadian, United States and British governments, and private donations, picked itself up and rebuilt. St. John's continued to develop: a dry dock had been established in 1882, and the town had become the headquarters of the trans-island railway in 1898 following its completion a year earlier. A coastal boat service to the out ports after 1900 further solidified the pre-eminence of the town. St. John's continued to grow up to and during that "war to end war", the First World War of 1914 to 1918. Unfortunately world markets for Newfoundland fish collapsed at war's end and the town's economy floundered.

### **A Rum Sort of Place**

Although St. John's was in recession during the inter-war period, a tiny island just a few kilometres away was prospering as never before ... or since. St. Pierre, a French colony just 19 kilometres off the coast of the adjacent Burin Peninsula, was the solution to a self inflicted problem. The United States passed the National Prohibition Act in October 1919. Hailed as the solution to the problems of mankind, it laid the basis for organised crime in America and funded the fortunes of such notorious characters as Alphonse Gabriel (Al Scarface) Capone, John (Legs) Diamond, George Celino Barnes (Machine Gun Kelly) et al. Rum, whiskey, wine and liquors, much of it supplied by Canadian distillers (Bronfmans), British and French firms, were funnelled through St. Pierre for onward shipment by sea to the United States. The importing and exporting of alcoholic beverage through St. Pierre was quite legal: CIBC had a branch there to facilitate the process. Shipments from St. Pierre were offloaded from the mother ship in international waters, into fast motor boats for smuggling into the United States. Newfoundlanders and Nova Scotians supplied the boats and labour. Al Capone visited St. Pierre to check on the operations ... he stayed at Hotel Robert ... like many of his henchmen he would end his days on another island, Alcatraz, situated in San Francisco Bay, where the food was less edifying. By 1933 it was all over, prohibition was abandoned as a lost cause in America and St. Pierre had to rely instead on a much diminished trade, smuggling to Newfoundland.

### **St. John's Goes To War**

St. John's had gained city status in 1921 but continued to suffer as the world entered the Great Depression, signalled by the stock market crash in the United States on Tuesday, October 20th 1929. The Newfoundland Government had greatly over extended itself financially during the 1920s: encouraged by easy access to credit it had bailed out the Newfoundland Railway in 1923 and embarked on an orgy of road building. By 1932 Newfoundland's exports had fallen in value by 42%, the export price of dried cod was down by 50%, public revenues had fallen by 31% ... and 25% of the population was on government relief. The Government turned to the United Kingdom for financial relief: the Commission of Government took office on February 16th 1934 and governed the island until its union with Canada on March 31st 1949.

On September 3rd 1939, Britain declared war on Germany; Newfoundland and Labrador entered the fray but since the colony did not possess the necessary resources for defence, Canada agreed, with the Commission's consent, to assume responsibility. By 1940 France had fallen and Germany occupied most of Europe, Britain looked likely to be next, and Canada, alarmed by the prospect of an invasion of Newfoundland and the threat this would pose to its own security, started to build up the island's defence capability. St. John's was destined to play a key role in the Battle of the Atlantic. Merchant convoys forming up in Halifax's Bedford Basin faced the Black Pit, a 2,000 kilometre gap in mid Atlantic without air cover, and naval escort protection for the entire trip. By the end of 1940, two million tons of allied shipping had been sunk. In a desperate attempt to close the mid Atlantic gap the British occupied Iceland on May 10th 1940, and the Royal Canadian Navy (RCN) established the Newfoundland Escort Force (NEF) in St. John's on May 27th 1941. Six RCN destroyers and 17 corvettes joined seven Royal Navy (RN) destroyers and 4 corvettes. Convoys were escorted from Halifax to a meeting point just east of the Grand Banks, and handed over to the NEF. The latter escorted them to a mid ocean meeting point off Iceland, where they were handed over to the RN escorts. The NEF then refuelled in Iceland and escorted a westward bound convoy back to North America. Since German U Boats also prowled Newfoundland's coastal waters, as evidenced by their sinking of the Port aux Basques to North Sydney ferry, SS Caribou, in 1942, St. John's was also the assembly point for local and Canada bound convoys. Until 1944 the City had the only dry dock and haul-out facilities in Newfoundland, servicing 25 escort vessels and repairing merchant ships. On January 31st 1941 it is reported that there were 53 merchant ships in the harbour. Although Germany did not declare war on America until December 11th 1941, the country became alarmed about its own security following the fall of France in 1940 and obtained permission to establish military bases in Newfoundland the following year. These included a 198 acre military base, Fort Pepperrell, (now Pleasantville), on the shore of Quidi Vidi Lake; 28 acres at White Hills for a radio tower; 2.5 acres on the harbour for a supply dock; and 2.5 acres on Signal Hill at the mouth of the harbour for anti-aircraft guns. The Canadians had already established an airfield at Torbay, now St. John's International Airport. The War brought misery to many, but also prosperity to St. John's ... and paved the way for the Province's entry into the Canadian federation on March 31st 1949.

### **Fishing For Oil**

Construction in St. John's continued after the war ended in 1945 and was further boosted by an influx of Canadian Government funds following Confederation in 1949 and the growth of public sector employment. However fish exports started to decline and the salt-fish trade disappeared. In 1976, when our company first started providing real estate consulting services in St. John's, the Central Business District was on the cusp of a building boom. The Royal Trust Tower (now the Fortis Building) an 82,000 ft.<sup>2</sup> 12 storey office building had been completed in 1969, Atlantic Place a 300,000 ft.<sup>2</sup> 9 storey retail and office complex in 1975. Over the next ten years three more high rise office buildings totalling 420,222 ft.<sup>2</sup> were added to the existing inventory: vacancy rates soared. 577 new hotel rooms were also built. In 1992 the Federal Government announced the cod moratorium: northern cod stocks had fallen to just 1% of their earlier level due to over fishing dating back to the 1950s. It was questionable whether there was sufficient biomass for the species to recover. 35,000 fisherman and plant workers lost their jobs and with them the boat repair work in St. John's. (Cod stocks are now recovering slowly, probably back to about 10%). Gradually the economy re-adjusted and diversified, workers retrained, left the province or commuted to Alberta, and there was a focus on education. Memorial University is now the largest school in Atlantic Canada, with a population of 18,913 students, the majority at its St. John's campus. Overfishing also had an unforeseen, and welcome, side effect. The depletion of predatory ground fish such as sole, flounder and halibut allowed the population of shellfish such as snow crab and shrimp to explode ... in economic value catches are roughly equivalent to the cod they replaced.

Oil was first discovered on the Grand Banks off Newfoundland in 1979. The Hibernia field about 315 kms east southeast of St. John's was originally estimated to have oil reserves of about 520 million barrels. It came at the cost of 84 lives lost when the Ocean Ranger semi-submersible drilling rig sank in a 1982 winter storm. In 1988 the Federal and Newfoundland governments settled their jurisdictional dispute over oil ownership. In light of the Ocean Ranger disaster the Federal Government insisted on a Gravity Base System (GBS) drilling platform that sits on the ocean floor. The world's largest oil platform, it is designed to withstand impact in "iceberg alley" and is so expensive it would have rendered the project uneconomic had the Federal Government not provided \$2.66 billion in subsidies and loan guarantees. Hibernia came on stream in 1997 and with the adjacent Ben Nevis-Avalon field has proven and probable oil reserves of 1.864 billion barrels.

The Terra Nova field, 35 kms from St. John's was discovered in 1984 and came on stream in 2002. It has proven and probable reserves of 531 million barrels.

The White Rose field, also 350 kms from St. John's, was also discovered in 1984 and came on stream in 2005. It has proven and probable reserves of 325 million barrels.

The North Amethyst Field, a satellite of Husky Energy's White Rose project, started to flow oil on May 31st 2010 and has proven and probable reserves of 115 million barrels.

In 2008, then Newfoundland Premier Danny Williams signed a deal with a consortium of oil companies led by Chevron Canada to develop the Hebron field with an estimated 700 million barrel oil reserve.

### **Modern Day St. John's**

Since 2001, four major hotels have opened in the St. John's Central Business District and the Delta Hotel has expanded. These developments increased the room inventory by 23.5% to provide a total of 1,097 hotel rooms in this area. The 301 room Sheraton Hotel underwent a \$10 million restoration, completed in 2011. A \$47 million expansion to more than double the size of the St. John's Convention Centre to 45,000 ft.<sup>2</sup> is expected to be completed in 2016. "The Rooms", a \$47 million facility that houses the province's archives, museum and art gallery opened in 2005. The Port of St. John's has invested over \$10.5 million in renovations since 2000 including redevelopments of Piers 7 and 17. The Port expected to host 16 cruise ships carrying over 25,000 passengers and crew in 2012, a 64% increase over the 9 cruise ships and 15,220 passengers and crew in 2011.

The overbuilding of office space in the 1970s and 1980s resulted in large vacancies and dampened the enthusiasm for further development. Now however, for the first time in 25 years, major new office developments are under construction in the downtown. When completed in 2013, East Port Properties' \$50 million building at 351 Water Street will add 165,000 ft.<sup>2</sup> and 446 parking spaces. Fortis Properties is building a 145,000 ft.<sup>2</sup> office building with 262 parking spaces, Fortis Place, 5 Springdale Street, scheduled for completion in the fall of 2013. When it is complete Fortis Properties are expected to proceed with the renovation of the Fortis Building, at 139 Water Street. In February 2012, City Council approved a 10 storey building on Job Street at Hamilton Avenue which will include eight floors of offices and two floors of condominium apartments. Construction commencement was scheduled for 2012.

There are a number of developments underway outside the St. John's CBD, throughout the Greater St. John's Area. The St. John's International Airport, which hosted 1.4 million passengers in 2011, is undergoing an expansion. Phase I is an extension to the east end of the terminal building currently underway and is expected to be complete in 2016. At that time Phase II will begin, a two year project to extend the west end of the terminal building. Technology and infrastructure upgrades are planned for the runway. Canada Lands is in the process of redeveloping part of the former World War II military base, Fort Pepperrell, now Pleasantville. Three blocks have been sold and will be developed with single family homes and apartment buildings, the latter by Killam Properties. Three new power centres are being marketed: the Field Power Centre (which will be anchored by an 8 screen Empire Theatre complex) and Harvey Power Centre, are located on either side of Torbay Road, near the airport and the Cabot Power Centre; and the Southlands Power Centre, situated to the west of Mount Pearl near a 2,400 acre, \$5 billion, mixed use development proposed by former premier Danny Williams. Suburban offices currently under construction or in the pre-leasing phase include a 46,000 ft.<sup>2</sup> building on Major's Path and Waterline Road; two 40,000 ft.<sup>2</sup> buildings on Kelsey Drive; four 30,000 ft.<sup>2</sup> buildings on Bristol Court, in addition to the structure already completed; and two buildings on International Drive with a total of 203,000 ft.<sup>2</sup>. There are several hotel projects proposed and approved. Residential development is also very active, with condominium apartments, new single family subdivisions, and a variety of seniors' housing projects in various stages of development.

## Financial Fundamentals

The Greater St. John's Area encompasses the cities of St. John's and Mount Pearl. The 2011 census recorded a population of 130,456 (St. John's 106,172, Mount Pearl 24,284), similar in size to the Greater Moncton Area's population of 111,512 (Moncton 69,074, Riverview 19,128, Dieppe 23,310). We have therefore used the Greater Moncton data to benchmark Greater St. John's:

Year	Investment (Building Permits)		
	Six Cities Total	Greater Moncton	Greater St. John's
2011	\$1,810,051,162	\$ 294,043,831	\$ 430,130,147
2010	\$1,946,260,989	\$ 236,459,660	\$ 568,334,082
2009	\$1,584,622,765	\$ 314,814,000	\$ 299,201,300
2008	\$1,682,335,414	\$ 249,324,000	\$ 302,087,282
2007	\$1,437,496,419	\$ 232,007,000	\$ 250,622,574
Total	\$8,460,766,749	\$1,326,648,491	\$1,850,375,385

Source: Municipalities, Turner Drake Field Survey November 2012.

Although investment in Greater St. John's is impressive compared to Greater Moncton, it is worthwhile recording that the latter community is no slouch. Greater St. John's performance is even more impressive if it is compared to the largest city in Atlantic Canada, the Halifax Regional Municipality (Population 390,398). HRM recorded \$3,646,766,00 in building permits during the 2007 to 2011 period i.e. \$9,341 per capita versus \$16,594 per capita in St. John's.

The quantum of, and growth in Average Household Income in Greater St. John's is the highest in Atlantic Canada:

Year	Household Income/Unemployment			
	Moncton (CMA)		St. John's (CMA)	
	Average Household Income	Unempl. Rate (%)	Average Household Income	Unempl. Rate (%)
2012	\$75,717	5.26%	\$99,391	6.51%
2011	\$72,093	4.96%	\$82,002	6.77%
2010	\$68,819	4.75%	\$77,825	5.17%
2009	\$67,494	3.85%	\$72,900	5.40%
2008	\$63,925	4.89%	\$70,855	6.62%
2007	\$62,762	5.77%	\$72,557	7.07%
2006	\$58,729	5.80%	\$64,500	7.43%
2005	\$57,374	6.59%	\$63,886	8.41%
2004	\$57,413	6.80%	\$61,813	7.64%
2003	\$53,691	6.81%	\$55,952	8.71%
2002	\$52,613	7.03%	\$54,522	9.00%

Source: Financial Post Survey of Markets

Our Economic Intelligence Unit surveys every office and industrial building ( $\geq 5,000$  ft.<sup>2</sup>) available for rent in each of the six major urban areas in Atlantic Canada. The survey, conducted for the Federal Government, now inventories 403 office buildings with an aggregate rentable area of 23.2 million ft.<sup>2</sup>, and 337 industrial properties with a rentable area of 14.2 million ft.<sup>2</sup>. We have conducted this survey semi-annually since 2006 and it continues to be the most extensive real estate study conducted in the region. Our most recent survey was completed in December 2012. The following graphs compare real estate performance in St. John's with that of its nearest rival, Halifax Regional Municipality (HRM), as measured by the vacancy rate.



The 4% vacancy in St. John's is indicative of a severe shortage of space. Since the vacant space is distributed across several buildings, effectively there is no space available. In similar circumstances elsewhere, the result has been a dramatic increase in the net absolute rent: 40% in a single year is not uncommon. The following table shows the net rent per ft.<sup>2</sup> for each of the major metropolitan areas in Atlantic Canada:

Net Absolute Rent/ft. <sup>2</sup>		
Municipality	Class A Office (CBD)	Best in Class Warehouse
St. John's	\$25.33	\$20.00
HRM	\$18.00	\$15.00
Fredericton	\$15.57	\$ 8.17
Saint John	\$15.33	\$12.44
Moncton	\$14.25	\$12.50
Charlottetown	\$14.20	\$12.50