



Rene W. Gatien, P. Eng, MBA

President & CEO

WATERLOO NORTH HYDRO INC.

PO Box 640
300 Northfield Drive East
Waterloo ON N2J 4A3
Telephone 519-888-5544
Fax 519-886-8592

E-mail rgatien@wnhydro.com
www.wnhydro.com

February 23, 2011

Ontario Public School Boards' Association
439 University Avenue, 18th Floor
Toronto, Ontario
M5G 1Y8

VIA E-MAIL AND RESS

Attention: Mr. Wayne McNally

Dear Mr. McNally:

**Re: May 1, 2011 Cost of Service Technical Conference Questions
Responses/ EB-2010-0144**

Pursuant to the Board's Procedural Order of January 21, 2011, Waterloo North Hydro Inc. (WNH) is enclosing its Responses to the School Energy Coalition's Technical Conference Questions of February 14, 2011.

WNH has filed an electronic copy of this document via the Board's web portal RESS and couriered to the Board Office two copies of this document.

If there are any questions, please contact Albert Singh at 519-888-5542, asingh@wnhydro.com or myself, Rene Gatien at 519-888-5544, rgatien@wnhydro.com.

Yours truly,

Original Signed By

Rene W. Gatien, P.Eng, MBA
President & C.E.O.



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February 23, 2011

Jay Shepherd Professional Corporation
2300 Yonge St., 8th Floor, Suite 806
Toronto, Ontario
M4P 1E4

VIA E-MAIL AND RESS

Attention: Mr. Jay Shepherd

Dear Mr. Shepherd:

**Re: May 1, 2011 Cost of Service Technical Conference Questions
Responses/ EB-2010-0144**

Pursuant to the Board's Procedural Order of January 21, 2011, Waterloo North Hydro Inc. (WNH) is enclosing its Responses to the School Energy Coalition's Technical Conference Questions of February 14, 2011.

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If there are any questions, please contact Albert Singh at 519-888-5542, asingh@wnhydro.com or myself, Rene Gaten at 519-888-5544, rgatien@wnhydro.com.

Yours truly,

Original Signed By

Rene W. Gaten, P.Eng, MBA
President & C.E.O.

Supplementary Questions for Technical Conference – School Energy Coalition

**SCHOOL ENERGY COALITION
TECHNICAL CONFERENCE QUESTIONS**

1. [SEC #6]

What % of files referred to the collection agency will be deemed bad debts.

The percentage of files referred to the collection agency that were deemed bad debts averaged approximately 73% over the period 2004 through 2010.

2. [SEC #10]

Please provide details on the deferral of some smart meter work till 2011.

Please refer to Board Staff TCQ # 6.

3. [SEC #11]

a) If in 2011 you anticipate a staff saving of one position, why has staffing & benefits increased by 7.4%?

The staff saving of one position has occurred in Meter Reading, USoA 5310. The staffing & benefits increase in WNH's billing costs in 2011 occurred as 2010 was not at full staff compliment due to internal staff movement.

b) Please explain how TOU billing will require additional staff resources?

TOU billing will require additional staff resources due to the increased volume of reads to 24 reads per day from one every two months in the case of residential customers. Increased reads require additional editing for missing or inaccurate data.

Supplementary Questions for Technical Conference – School Energy Coalition

4. [SEC #15]

- a) *Please explain the reason for revising the Service Centre Building Maintenance costs provided in the Interrogatory responses?***

WNH had incorrectly reflected the service centre building maintenance amounts on Exhibit 4, page 84 of its application and in SEC IR # 15 WNH corrected these amounts.

- b) *Has the revenue requirement been updated to reflect the change?***

The corrected numbers, referred to in (a) above, and reflected in SEC IR # 15, are the costs that were included in the application, no adjustment is required.

- c) *Please explain the increase in labour costs from 2010 to 2011?***

Additional resources (labour) will be required in 2011 when WNH moves to the new building. This additional resource will be used to assist with the decommissioning of the old building and assist with the move to the new facility.

5. [EP #5]

How did the Applicant reach the valuation of the estimated sale value of the Northfield facilities? Please provide all documents to support the valuation.

WNH received in a November 2007 report, a property valuation from Coldwell Banker Commercial Peter Benninger Realty for \$7,000,000. WNH received in November 2010 an update to the report via e-mail and it has been attached as Appendix A. A copy of the original report from 2007 is attached as Appendix B.

WNH obtained permission for Coldwell Banker to release the report for the public record.

The net proceeds from the sale of the property will be reduced by any remedial and selling costs. Please note that any property valuation provided does not reflect any such expense.

WNH notes that the sale of the property will not occur until 2012.

Supplementary Questions for Technical Conference – School Energy Coalition

6. [EP #26b]

Please provide details and an update on the two vacant positions. How long has the position been vacant?

The Senior Accounting Clerk Position was replaced in January 2011. The System Operator position has been filled by a Temporary Employee until such time as an Apprentice System Operator can fill this role.

7. [EP #32]

a) *How many temporary employees does WNH currently have?*

WNH currently has three temporary contract positions and three students from the co-operative education system.

b) *Please provide details on what positions they hold.*

Two of the temporary contract positions are system operators and the remaining position is an Engineering underground inspector. The three co-operative education students are in the Engineering Department.

c) *What was the total amount of working days in 2009 and 2010 filed by all temporary employees?*

The total number of working days filled by temporary employees was as follows: 587 in 2009 and 630 in 2010 for contract employees; 780 days in 2009 and 651 days in 2010 for co-operative education students; and 338 days in 2009 and 353 days in 2010 for summer students. The total of the breakdown above is 1,705 days in 2009 and 1,634 in 2010.

8. [EP #37]

Please provide final 2010 data for the purchasing/stores department?

Please see the table below.

Supplementary Questions for Technical Conference – School Energy Coalition

TCQ # 8 – 2010 Purchasing/Stores

Purchasing/Stores	
Labour	302,740
Training & Development	2,282
Material	6,130
Equipment	4,279
Material Variances	10,957
Reel Costs	13,516
Transportation	4,571
Depreciation	11,244
Building Cost	83,544
Other	1,721
Total	440,985

9. ***[Board Staff #7a]***

Please provide specific details on why the furniture, “does not lend itself to modern working practices, and does not provide adequate workspace and efficient storage.”

Not all furniture will be replaced; some will be reused in the new building. Some of the furniture that will be replaced was not designed according to modern ergonomic standards and practices.

Some of the old furniture will need to be replaced due to its age and deteriorating condition since parts are no longer available to fix or repair some of the workstations. In addition, some of the workstations do not fit easily into the configuration of the new building space.

With respect to adequate workspace, older work stations do not provide the amount of working space and storage needed by staff to perform their work efficiently.

Supplementary Questions for Technical Conference – School Energy Coalition

10. [Board Staff #23]

Please provide all drivers for the reduced taxes/PILs estimates for 2010 and 2011 compared to previous historical actuals and provide a detailed breakdown for each.

WNH has provided the primary drivers for the reduced taxes/PILs estimate for 2010 and 2011 compared to previous historical actuals in the table below. As is demonstrated in the table, the decrease in 2011 taxes forecast is a result of higher deductions, namely higher interest expense and CCA in excess of Amortization, and a lower tax rate (i.e. 2006 tax rate is 36.12% and 2011 tax rate is 28.25%). The decrease in 2010 is a result of lower taxable income (which is impacted by the higher deemed interest expense) than 2011.

Table TCQ # 10 – Tax/PILs Drivers

Primary Drivers in Change in Taxes Payable						
	Actual				Forecast	
	2006	2007	2008	2009	2010	2011
Taxes Paid						
Taxes Paid	2,260,693	2,220,551	2,261,513	1,974,947	112,443	1,212,310
Decrease in Tax Paid 2006 to 2010/2011						(1,048,383)
Primary Deductions						
Interest Expense - Actual	3,953,254	3,808,002	3,597,691	3,202,600		
Interest Expense - Deemed					5,586,645	4,803,477
CCA in Excess of Amortization	(528,687)	832,420	462,711	1,364,326	1,634,302	3,177,555
Total Primary Deductions	3,424,567	4,640,422	4,060,402	4,566,926	7,220,947	7,981,032
Tax Rates	36.12%	36.12%	33.50%	33.00%	31.00%	28.25%
Tax Reductions due to Deductions Above	1,236,954	1,676,121	1,360,235	1,507,086	2,238,493	2,254,641
Decrease in Tax Paid 2006 to 2011						(1,017,688)
Income Changes						
Utility Income Before Income Taxes					2,077,109	7,232,958
CCA in Excess of Amortization					(1,634,302)	(3,177,555)
Taxable Income based on Primary Drivers					442,807	4,055,403
Tax Rate x Taxable Income Primary Drivers					137,270	1,145,651

Supplementary Questions for Technical Conference – School Energy Coalition

11. [VECC #19a]

Please provide a table comparing the Board approved budgets contained in IR Table #19 to the actual amounts spent.

Please refer to Energy Probe TCQ # 22 (a).

12. [VECC #19b]

Please provide a copy of the 2011 capital budget that was presented on December 16, 2010. Please provide copies, or list if already provided in this proceeding, all supporting documents presented.

Please refer to VECC TCQ #9.

13. [VECC #21]

Please provide a table comparing the Board approved budgets contained in IR Table #22 to the actual amounts spent.

Please refer to Energy Probe TCQ # 24.

Supplementary Questions for Technical Conference – School Energy Coalition

APPENDIX A

WNH SERVICE CENTRE PROPERTY VALUATIONS UPDATE

To: Peter Benninger <pbenninger@coldwellbankerpbr.com>
Cc: Paul Eichinger <peichinger@coldwellbankerpbr.com>
Bcc:
Subject: RE: Property Valuations

Peter Benninger

Hi Herb: Of course we cannot guarantee where...

11/08/2010 09:27:33 PM

From: Peter Benninger <pbenninger@coldwellbankerpbr.com>
To: "HHaller@wnhydro.com" <HHaller@wnhydro.com>
Cc: Paul Eichinger <peichinger@coldwellbankerpbr.com>
Date: 11/08/2010 09:27 PM
Subject: RE: Property Valuations

Hi Herb:

Of course we cannot guarantee where property values will be going forward but Paul and I have reviewed our original analysis of the WNH property, sales and market data since that time and considered as well other developments that may take shape over the next few years. We offer the following response to your questions.

The valuation that we completed for WNH in November 2007 was based on the following:

- A value of \$64/sf for the building and associated land (48,000 sf on 4.5 acres)
- A value of \$300,000/acre for the remnant land (13 acres)

The building is approx 27,000 sf of office and 21,000 sf of industrial/warehouse space.

Since that time there have been few land transactions in Waterloo (which reflects the absence of supply). RIM has purchased another piece from Dalsa across the street from the WNH property, at approximately \$280,000/acre (7.2 acres).

The City of Waterloo has 25 acres of land in the vicinity of your property that may be coming to market in the next year or so, and Activa will also be bringing employment lands to market just north of RIM Park. There is still strong demand for land in the Waterloo market, so timing will be an important consideration. Based on all of these factors, we would suggest that land values for this parcel would currently be approximately \$300,000 /acre and would be in the \$300,000/acre to \$325,000/acre for the next 12 to 18 months.

In terms of building values, an interesting comparable is a project I was involved with earlier this year – Christie Digital purchased a building at 825 Trillium Drive in Kitchener, 58,893 sf @ \$64/sf. This building has a smaller office component (about 10%) than your building. Another comparable earlier this year, 1830 Strasburg Road in Kitchener, sold for \$63/sf (71,893 sf), with about 10% office space and a larger warehouse space with much higher ceiling heights (32 feet). 140 Frobisher Drive in Waterloo sold for \$79/sf about a year ago – this building is smaller (16,081 sf) with about 35% office space.

A quick review of these comparables and others would suggest increased values for buildings that can be used for office purposes in the Waterloo market. We would forecast that the building is worth \$70/sf currently, and this rate of increase would hold true for the next 12 to 18 months, suggesting a range of \$70/sf to \$75/sf in 12 to 18 months.

In summary, we would suggest a current value for the property of approximately \$7,260,000 and predict a value range of between \$7,260,000 and \$7,825,000 in 12 to 18 months.

Sincerely,

Peter Benninger, Broker of Record

President & CEO

Coldwell Banker Peter Benninger Realty, Brokerage* *Independently Owned & Operated

508 Riverbend Drive

Kitchener, ON N2K 3S2

Phone: 519-743-5211 x3000

Fax: 519-571-4371

pbenninger@coldwellbankerpbr.com

From: HHaller@wnhydro.com [mailto:HHaller@wnhydro.com]

Sent: November 4, 2010 12:40 PM

To: Peter Benninger

Subject: Property Valuations

Hello Peter:

You and Paul prepared a property valuation report (Nov 9, 2007) for WNH which contained a number of conclusions (see attached)

Do you have an opinion as to how your estimate of \$7,000,000 for our existing site (17.6 acres) may be viewed in today's market ?

Where do you see commercial property values going over the next 12 - 18 months ?

Regards,

Herbert Haller P.Eng.

Vice-President, Engineering & Stations

Waterloo North Hydro Inc.

300 Northfield Drive East

Waterloo, Ontario, N2J 4A3

tel: (519) 888-5568 (direct line)

fax: (519) 886-7049

email:hhaller@wnhydro.com

Supplementary Questions for Technical Conference – School Energy Coalition

APPENDIX B

WNH PROPERTY VALUATIONS



COLDWELL BANKER COMMERCIAL
PETER BENNINGER REALTY
508 RIVERBEND DRIVE
KITCHENER, ONTARIO N2K 3S2

BUS (519) 743-5211
FAX (519) 743-8009
www.coldwellbankerpbr.com/commercial

November 9, 2007

Mr. Herbert Haller
Vice-President, Engineering and Stations
Waterloo North Hydro
300 Northfield Drive East
Waterloo, Ontario
N2J 4A3

Dear Herb:

Re: Property Valuations, 300 Northfield Drive East

Thank you for the opportunity to submit opinions of property value for the Waterloo North Hydro property at 300 Northfield Drive East in Waterloo.

It is our opinion that the property has a market value as follows:

Existing Building, Sale Value	\$3,100,000
Existing Building, Lease Value	\$5/sf net (industrial space)
	\$10.50/sf net (office space)
Excess Land (approx 13 acres)	\$3,900,000
Entire Property	\$7,000,000

It is important to recognize that this property valuation does not represent an appraisal nor a guarantee of a value. This valuation is to be used by the addressee only for the purposes discussed, and is based on the assumptions outlined in the report, which are based on current market knowledge. The information contained herein has been obtained from sources which we have deemed reliable but we cannot guarantee its accuracy or completeness.

Thank you for the opportunity to undertake this assignment. Please feel free to contact either of the undersigned if you have any questions or comments.

Sincerely,

Peter Benninger, President, Broker
Coldwell Banker Peter Benninger Realty
519-743-5211x3000

Paul Eichinger, Vice President
Coldwell Banker Peter Benninger Realty
519-743-5211x3049

300 Northfield Drive Property Valuation

Background

Waterloo North Hydro (WNH) has engaged Coldwell Banker Peter Benninger Realty (CBPBR) to complete valuations for its property at 300 Northfield Drive, Waterloo, as outlined below:

- Market valuation of the existing facility and associated property. In this scenario, WNH would build a new facility on its surplus property on Northfield Drive and sell its existing facility.
- Estimate of potential lease revenues for the existing building. In this scenario, Waterloo North Hydro would build a new facility on its surplus property and retain ownership of its existing facility.
- Market valuation of the entire property, if Waterloo North Hydro were to move to a new location.
- High level analysis of property values in other area(s) of the Region deemed suitable for a new WNH facility, as identified by WNH staff.



Approach

CBPBR has completed the following steps in undertaking this assignment:

- Site tour of the existing building.
- Review of information provided by WNH staff and its architectural consultant.
- Analysis of comparable property transactions and listings in this market.
- Determination of property values based on an analysis of the data collected.

For the purposes of this valuation, it is assumed that the property is clean (from an environmental standpoint), and servicing is readily available to accommodate redevelopment.

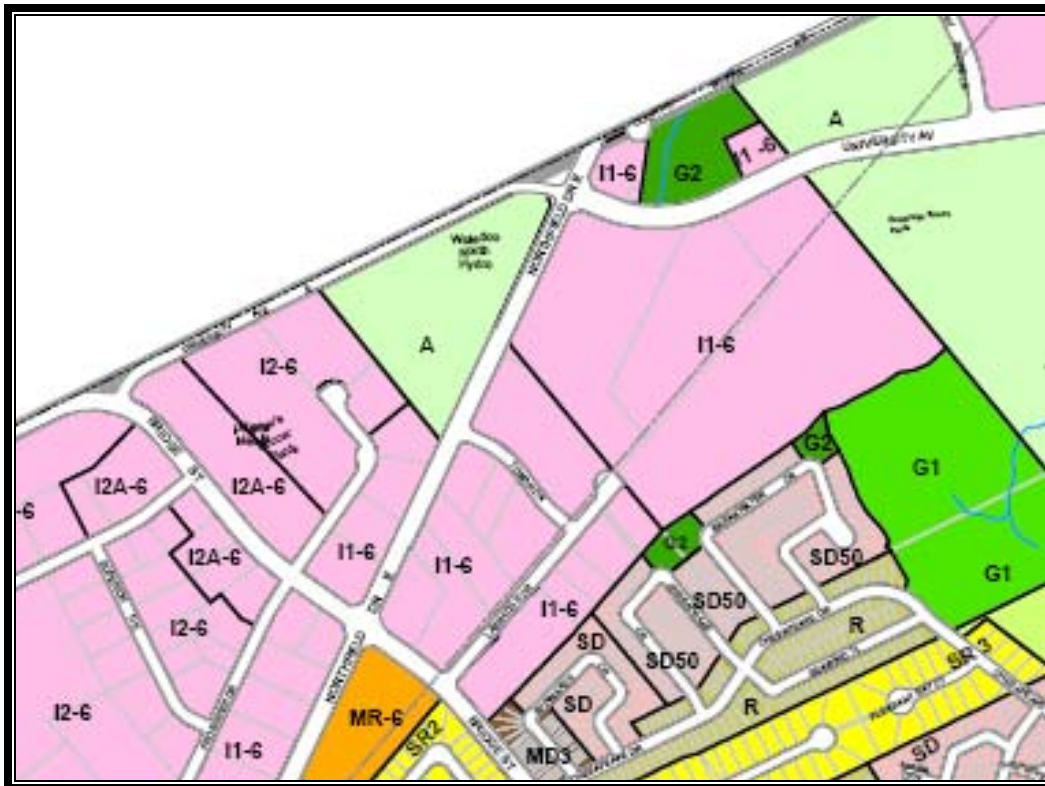
Property Description

300 Northfield Drive East is approximately 17.623 acres in size, and is situated in the northeast quadrant of the City of Waterloo, on its border with the Township of Woolwich. The property has frontage along Northfield Drive to the south and University Avenue to the north and abuts two intersections along Northfield Drive, at Toman Drive and University Avenue.

The property is situated adjacent to the Northland Business Park to the west and across Northfield Avenue from the Eastbridge Industrial area.



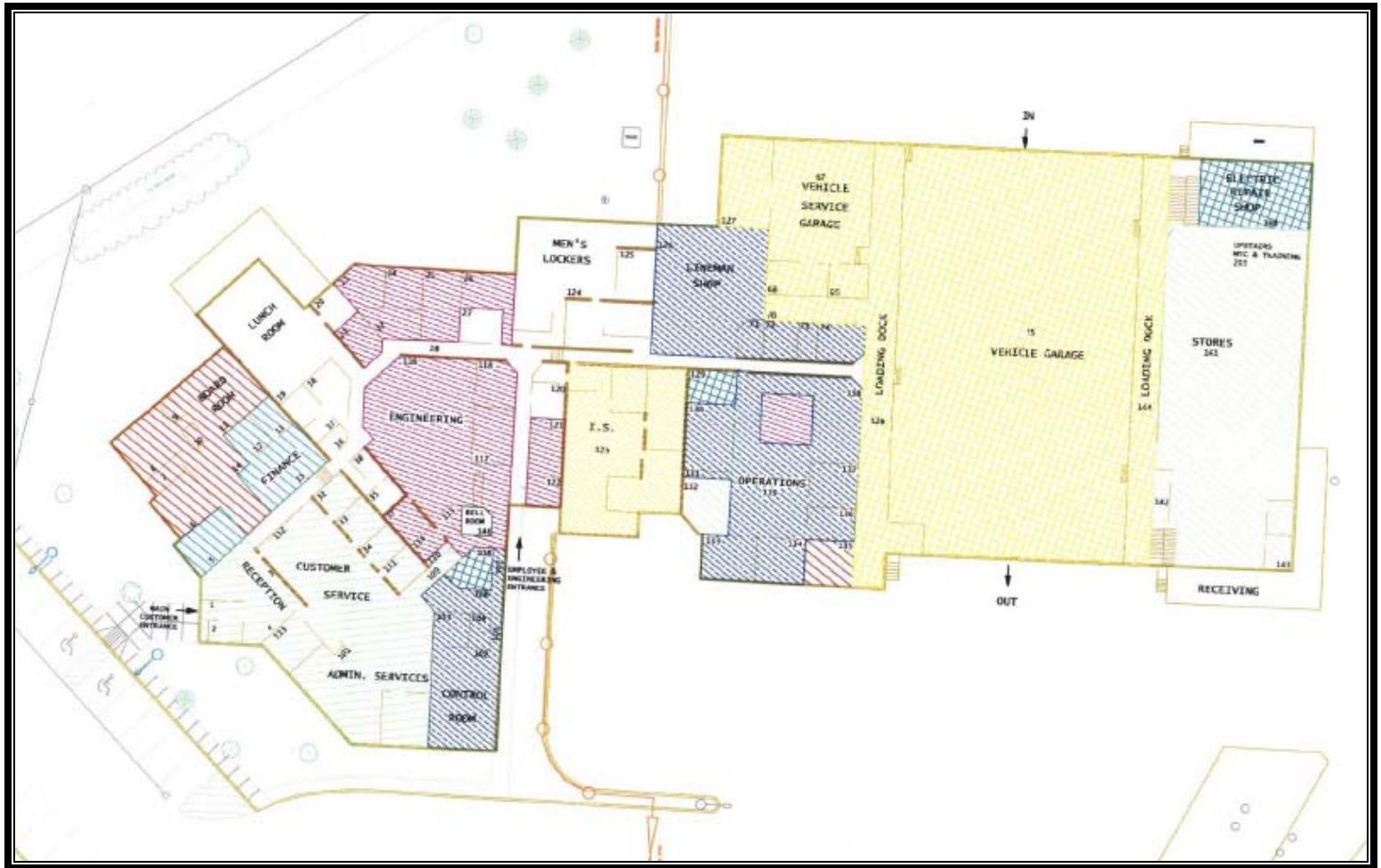
The property is designated Industrial in the City of Waterloo Official Plan, and is zoned Agricultural in the City's Zoning By-Law. The relevant portion of the City's Zoning Map is reproduced below. Adjacent properties are zoned I2-6 and I1-6 (the "6" reflects the maximum building height, in storeys, allowed on the property). The industrial uses allowed within the I1 and I2 are essentially the same. The I1 zone, however, allows a number of additional complementary commercial uses (including office), additional uses such as banks and coffee shops within an industrial mall, and a greater percentage of floor space for retail activities for products manufactured or assembled on site. These additional uses can certainly have a positive impact on property value.



For the purposes of this valuation, it is assumed that the WNH property has been rezoned to an I1 zone, consistent with the lands across the street and along Northfield Drive. If WNH decides to sell or lease some or all its current property, the new user/owner(s) would require a zone change in advance of occupying the site.

WNH can continue to operate within the current zoning, as the Zoning By-Law does not apply to public service bodies.

The WNH building totals approximately 48,000 square feet, the majority of which (39,000 sf) was constructed in 1981-1982 and the balance added in 1988. Internal renovation work was undertaken in 1993, 2003 and 2006. Approximately 21,000 sf is considered more industrial in nature (vehicle storage, stores, etc.) with greater ceiling heights (16 feet to 18 feet). The balance of floor space is used primarily as office space, including lunch rooms, meeting rooms, locker rooms and customer service areas.



The building appears to be in excellent condition and according to WNH staff there are no large capital expenditures anticipated or required in the next few years.

There are two components to be valued – the existing building (sale or lease) and the remnant/excess land. If the existing building is sold, then it is estimated that this property would be approximately 4.5 acres in size. The exact requirement is very dependent upon the user, their parking and outdoor storage requirements, etc. Property standard requirements such as building setbacks, landscaping coverage, etc. as outlined in the zoning by-law will need to be respected if the property is severed. Also, the access to University Avenue and the existing stormwater management (SWM) pond may need to be shared. The drawing below outlines such a scenario. If the building were sold, approximately 13 acres of excess land would result, part of which would be the SWM pond and the joint access. It should also be noted that the entrance from Northfield Drive may be required as a shared access, if an additional access from Northfield Drive cannot be accommodated.



The most appropriate methods of valuing the property are:

- the direct comparison method, wherein transactions of similar buildings or properties that have occurred in the market are identified and compared to the subject property,
- the investment approach, wherein the value of the building is based on the potential revenues that would be generated if fully occupied and leased.

The existing building is somewhat unique in that it has a much higher percentage of office space than a traditional industrial building. Viewed from a different perspective, it also has a much higher percentage of warehousing/vehicle storage space than a traditional office building. The building would attract both office and industrial users, although it may be more challenging to find a buyer as a result.

Valuation of Existing Building – Sale – Direct Comparison Approach

The following transactions have recently occurred and may be considered comparable to the subject property. Appendix 1 includes additional information for each of these comparables.

	Address	Sale Date	Sale Price	Site Area	Building Area	Sales \$/sf
Industrial Comparables:				(acres)	(sf)	
1	620 McMurray Road, Waterloo	2/23/2007	\$3,550,000	4.11	52,264	\$68
2	95 Trillium Drive, Kitchener	9/11/2007	\$3,800,000	4.97	67,645	\$56
3	295 Northfield Drive, Waterloo	8/24/2007	\$1,950,000	2.81	18,320	\$82*
4	230 Regina Street, Waterloo	9/17/2007	\$2,600,000	1.8	46,400	\$56
5	1351 Strasburg Road, Kitchener	9/28/2007	\$5,450,000	12	78,496	\$69
6	1560 Battler Road, Kitchener	8/29/2007	\$12,300,000	8.29	161,211	\$76
7	50 Northland Road, Waterloo	11/17/2006	\$11,550,000	11	219,179	\$52
8	218 Frobisher Drive, Waterloo	7/9/2007	\$854,000	1	9,800	\$87
Office Comparables:						
9	435 King Street North, Waterloo	12/15/2006	\$5,330,000	6	71,564	\$74
10	22-26 King Street South, Waterloo	12/16/2005	\$2,001,711	0.27	25,000	\$80
11	108 University Avenue, Waterloo	07/31/2006	\$5,477,000	12.2	123,000	\$45
12	195 Columbia West, Waterloo	08/31/2005	\$5,100,000	2.1	36,000	\$142
13	611-619 Kumpf Drive, Waterloo	09/09/2005	\$11,900,000	11.32	80,795	\$130*

Comparable 1 has 6,620 sf of office space, ceiling heights are 21 feet clear, surplus land on site.
 Comparable 2 is a fully air conditioned building, 5 cranes, ceiling heights are 24 feet clear, excess land for expansion opportunities.
 Comparable 3 is a fairly new single storey building, 3,200 sf of office space, 1.5 acres of surplus land, clear ceiling heights in excess of 26 feet. * Actual building value after considering excess land value is approximately \$82/sf
 Comparable 4 was fully tenanted at the time of sale, ceiling heights ranging from 12 to 18 feet.
 Comparable 5 is a 69,042 sf plant with 9,454 sf of office space, craned facility, ceiling heights ranging from 21 to 35 feet, fully leased at time of sale, room for expansion.
 Comparable 6 has approximately 1,000 sf of office space, fully leased at time of sale, ceiling heights are 32 feet clear.
 Comparable 7 has roughly 30,000 sf of office space, property was 80% leased at the time of sale, ceiling heights of 18 feet.
 Comparable 8 has ceiling heights of 18 feet clear, a small amount of surplus land, 1,500 sf of office space.
 Comparable 9 is the former Conestoga College north campus in Waterloo, 6 acre site, 2 buildings totaling 71,564 sf, substantial on-site parking included.
 Comparable 10 is a mixed use retail/office building located in the core area of Uptown Waterloo, fully leased at the time of sale, limited surface parking, block construction.
 Comparable 11 is the former University Heights Secondary School, substantial on-site parking, block construction, excess lands.
 Comparable 12 is a former University of Waterloo office building sold to RIM.
 Comparable 13 is a property on Kumpf Drive at the north edge of Waterloo, with 5.5 acres of surplus land, new construction, fully leased. * Actual building value after considering excess land value is approximately \$130/sf.

Analysis

The industrial building comparables range from \$52/sf to \$82/sf. The key factors contributing to the difference in values include building age, location, use, owner occupied vs. leased, building condition, etc. As such, these comparables all share some characteristics with the WNH building, but they differ in other respects. They all have approximately 10% to 15% office space, whereas the WNH facility has in excess of 50%.

The office building comparables have a broader range of values. Comparables 9 and 11 are actually school buildings that have an office component. Comparables 12 and 13 are pure office buildings servicing the technology sector. The higher values reflect the age, investment and/or locational advantages of these buildings.

It is felt that in this case the best comparables are the group of industrial transactions, given that they are fairly recent and more closely reflect the WNH property characteristics. The average value of these transactions is \$63.68 per sf, rounded to \$64/sf. This value also falls within the range of office comparables 9 and 11, which are unique facilities that share some characteristics with the WNH building.

As such, the value of the WNH building is estimated to be \$64/sf*48,000 sf = \$3,072,000 rounded to \$3,100,000.

Valuation of Existing Building – Sale – Investment Approach

For the purposes of this analysis, it is assumed that the WNH building could be converted to a multi-tenant office/industrial mixed use facility, subject to the following qualifications:

- There are no building code, structural or architectural issues preventing conversion and/or expansion.
- Construction cost estimates are provided without benefit of discussion with architects, engineers or contractors and therefore it is understood that there may be a wide degree of variance from the number provided.
- It would take 2 years to refurbish and lease the building.

As determined in the next section of this report, the office space within the WNH building could yield net lease rates of \$10.50 per sf. The industrial space could yield net lease rates of approximately \$5/sf. Based on the current configuration of the building, approximately 24,600 sf would be leased at industrial rates, (this represents the pure industrial space plus some supporting office space), the balance (23,400 sf) at office rates. As such, the potential revenues are as follows:

24,600 sf * \$5/sf	= \$123,000 net income per year
23,400 sf * \$10.50/sf	= \$245,700 net income per year

Total projected = \$368,700 net income per year (rounded to \$370,000)

Capitalization rates are commonly used to determine building value based on net income. In this case, a capitalization rate of 8% is appropriate, given the moderate risks to the project. The value of a finished, fully leased multi-tenant office/industrial building would be $\$370,000 / .08 = \$4,625,000$. However, to get to that stage from the current state of the building, a number of costs would be incurred, as follows:

Building conversion costs	\$15/sf * 48,000 sf	= \$ 720,000
Leasing, legal, etc.		= \$ 90,000
Developer Profit/Risk/Contingency	15% * \$4,625,000	= \$ 693,750
Financing	2 years * 7% interest * \$3,000,000	= \$ 420,000
Total Costs		\$1,923,750

The investment approach, therefore, yields an estimated value of $\$4,625,000 - \$1,923,750 = \$2,701,250$ for the WNH building.

It is felt that given the market strength, current levels of activity and the continued shortage of land supply, the direct comparison value of **\$3,100,000** for the WNH building is appropriate.

Valuation of Existing Building – Lease

As mentioned previously, the WNH building has distinct office and industrial components. If WNH retains ownership of the building, a likely scenario could see the building converted to a multi-tenant facility, as described in the previous section.

The following table illustrates sample leases for office space in industrial/commercial areas of the City.

	Address	Lease Date	Length of Term (Months)	Size (Sq. Ft.)	Price (Sq. Ft.)
Office Leasing Comparables:					
1	105 Lexington Road, Waterloo	11/07/2007	60	1,750	\$9.20
2	151 Frobisher Drive, Waterloo	10/25/2007	36	1,675	\$10.75
3	101 Randall Drive, Waterloo	08/28/2007	48	13,746	\$12.25
4	105 Lexington Road, Waterloo	07/09/2007	32	2,500	\$13.44
5	A23 - 550 Parkside Drive, Waterloo	06/04/2007	24	1,800	\$8.50
6	B1 – 550 Parkside Drive, Waterloo	04/19/2007	36	3,125	\$11.70
7	283 Northfield Drive, Waterloo	02/13/2007	72	4,349	\$10.83

Comparable 1 is a drive-up office unit located at the Dearborn Centre, ample on-site parking provided, limited street exposure.

Comparable 2 is a small condominium unit in the Frobisher Business Park building.

Comparable 3 drive-up finished office space, on-site parking provided, technology area.

Comparable 4 is a drive-up finished office unit located at the Dearborn Centre, ample on-site parking provided, 32 month sublease, end cap unit.

Comparable 5 drive-up finished office space, on-site parking provided, Weber/Parkside business park.

Comparable 6 is an end unit, finished office space, Weber/Parkside business park.

Comparable 7 is newly constructed, drive-up space in the Northbridge Business Centre

The lease rates range from \$9.20/sf to \$13.44/sf. These rates are typically exclusive of maintenance, utilities and tax charges, so they represent net income, or profit, to the landlord. It is felt that the WNH office space, given its location, configuration and mixed use nature, would fall within a range of between \$10/sf and \$11/sf. For analysis purposes, a figure of \$10.50/sf will be used.

The following table illustrates sample leases for industrial space in industrial/commercial areas of the City.

	Address	Lease Date	Length of Term (Months)	Size (Sq. Ft.)	Price (Sq. Ft.)
Industrial Leasing Comparables:					
1	145 Northfield Drive, Waterloo	10/18/2004	12	20,000	\$3.75
2	500 Dotzert Court, Waterloo	10/18/2004	12	18,000	\$5.40
3	588 Colby Drive, Waterloo	03/23/2006	120	18,200	\$4.75
4	560 Parkside Drive, Waterloo	09/30/2006	60	50,604	\$4.50
5	620 Davenport Road, Waterloo	09/21/2005	36	13,000	\$6.00
6	620 Davenport Road, Waterloo	06/10/2005	48	4,421	\$5.50
7	575 Kumpf Drive, Waterloo	06/02/2006	48	15,407	\$4.18
8	50 Northland Road, Waterloo	11/07/2006	60	30,300	\$6.30
9	483 Conestogo Road, Waterloo	04/16/2007	60	15,346	\$5.40

Comparable 1 has ceiling heights ranging from 18 to 22 feet clear, 2 loading docks.

Comparable 2 has ceiling heights of approximately 16 feet, 2 loading docks.

Comparable 3 is a warehouse distribution facility, ceiling heights of 16 feet, approximately 10 loading docks, 1 drive-in door.

Comparable 4 has 4 loading docks, 1 drive-in door, ceiling heights of approximately 25 feet.

Comparable 5 is warehouse/manufacturing space, 5 loading docks, 2 drive-in doors, 20 foot clear ceilings.

Comparable 6 is warehouse/manufacturing space, 20 foot clear ceilings.

Comparable 7 ceiling heights in excess of 18 feet clear, 2 dock loading doors, located at Northfield and the Expressway.

Comparable 8 clean warehouse space, 5 loading docks, 18 foot clear ceilings.

Comparable 9 has 1 loading door, 1 drive-in door, ceiling heights ranging from 15 to 20 feet.

These comparables share many characteristics with the subject property, in terms of size, location, ceiling heights, etc. The average of these transactions is approximately \$5.00/sf, which is an appropriate estimate for the industrial space in the WNH building.

It is therefore estimated that, assuming that the WNH building can be converted into a multi-tenant mixed use office/industrial facility, that the office space could be leased for **\$10.50 per sf net**, and the industrial space at **\$5.00 per sf net**.

Excess Land Valuation

The following land transactions have recently occurred and may be considered comparable to the subject property.

	Address	Sale Date	Selling/List Price	Site Area (acres)	Sale Price/Acre
	Subject Property 300 Northfield Drive East			13 acres (approx)	
1.	640 Bridge Street, Waterloo	October 9, 2007	\$468,600	1.50	\$312,400
2.	University/Northfield, Waterloo	August 30, 2007	\$11,600,000	37.5	\$309,333
3.	560 Westmount Road, Waterloo	August 29, 2006	\$1,5001,000	5.4	\$277,963
4.	291 Northfield Drive, Waterloo (at Bridge Street)	June 22, 2006	\$1,076,792	5.84	\$184,485
5.	Bathurst Drive, Waterloo	January 24, 2006	\$863,000	4.31	\$200,232
6.	540 Bingemans Centre Drive	March 28, 2007	\$512,000	2.6	\$200,000
7.	Thompson Drive, Cambridge	June 8, 2007	\$1,142,001	5.6	\$205,000
8.	Thompson Drive, Cambridge	May 22, 2007	\$1,848,158	9.2	\$201,500
9.	Pinebush Road, Cambridge	Dec. 21, 2006	\$664,470	2.9	\$227,000
10.	1800 Strasburg Road, Kitchener	November 23, 2006	\$2,250,000	9.5	\$236,842
11.	Franklin Boulevard/Hwy 401, Cambridge	July 6, 2006	\$3,750,000	14.1	\$266,904
	Current Listings		List Price	Site Area (acres)	List Price/Acre
12.	27 Riverview Place, Kitchener		\$671,550	3.63	\$185,000 (not serviced)
13.	275 Ardelt Avenue, Kitchener		\$449,000	1.95	\$230,256
14.	1800 Victoria St. N. Kitchener		\$2,469,150	8.37	\$295,000
15.	Rockway Business Park, Kitchener		various	various	\$225,000 (approx value assigned to land)

Comparable 1 is a property in the Eastbridge Industrial Park.

Comparable 2 is a parcel recently sold to RIM for employment purposes.

Comparable 4 is now a multi-tenant industrial/commercial facility

Comparable 5 is a single tenant industrial building occupied by a contracting firm

Comparable 6 is the most recent sale by the City of Kitchener.

*Comparables 7,8,9 are recent City of Cambridge sales.
Comparable 10 is a property sold to an owner/user.
Comparable 11 is a site with 401 exposure and additional uses allowed in the zoning.
Comparable 12 is a privately owned unserviced site.
Comparable 13 is a remnant piece of industrial land.
Comparable 14 is at the corner of Victoria Street and Bingemans Centre Drive and is zoned B3.
Comparable 15 – the Rockway Business Park - is being marketed as a design/build/own opportunity.
The land is not directly for sale but is valued at \$225,000/acre.*

Analysis

Two recent sales in Waterloo have exceeded \$300,000 per acre. Comparable 2 is a large parcel on Northfield Drive, across the street from the WNH property, which has been purchased by RIM. The vendor was required to grade the site as part of the purchase agreement, and this likely decreased the net proceeds to the vendor to an estimated \$290,000/acre. Comparable 1 is a smaller parcel that has been severed from an existing lot.

Comparable 3 represents a transaction of a commercially zoned parcel adjacent to the Laurel Conservation Area. The commercial zoning is very restrictive, and primarily only allows office commercial uses. As such, it is a good comparable to the subject site. Comparable 4 is a site very close to the subject property, and has been developed into a multi-tenant industrial/commercial facility. There were some extenuating circumstances which likely lowered the sales value somewhat. Comparable 5 is a transaction in the Northland Business Park, in an industrial zone which does not allow office uses.

The most recent sale of industrial land by the City of Kitchener on Bingemans Centre Drive yielded approximately \$200,000/acre. City of Cambridge sales are ranging between \$210,000/acre and \$230,000/acre. Certain private sales have yielded higher returns, most notably 1800 Strasburg Road, purchased by an owner/user for future expansion/relocation of their existing business.

The value of the most recent transactions speak to the acute shortage of available employment land in Waterloo, and are very much specific to the local Waterloo market. This shortage of land will continue in the foreseeable future, as there is limited supply of future industrial land planned – approximately 120 acres on the far west side of the City and perhaps an additional 100 acres around RIM Park, subject to the completion of area District Plans.

The subject property enjoys the following positive attributes:

- at a major intersection - the gateway to the City
- excellent exposure and easy access
- close to the amenities at RIM Park
- part of the Northfield Industrial subdivision
- adjacent to large residential areas (where employees can live)
- flat topography

It is therefore reasonable to assume that the excess land on the WNH property, if sold today, would be valued at or near the most recent transactions in the area – approximately \$300,000 per acre * 13 acres = \$3,900,000.

The value of the excess land, assuming an I1 zoning, is therefore estimated to be \$300,000 per acre, or \$3,900,000.

Value of the entire property

If WNH moves to another location, the entire property could be sold as one or in parts, as contemplated in this report. It is felt that there would be sufficient market interest in both scenarios that a competitive selling environment would be created. It is also reasonable to assume that the value of the entire property would be equal to the sum of its parts, i.e. **\$7,000,000.**

Alternate Locations

WNH has the option of selling its entire property and purchasing land in another location. According to WNH staff, its current location is ideal from an operational standpoint, as it is central to the WNH service area. Possible alternate locations, therefore, could be along (or in close proximity to) the City of Waterloo/Township of Woolwich boundary. An excerpt from the Township Zoning Map is shown below, most of the land along this boundary in the Township is zoned Agricultural, with the exception of the "B12" area shown below. This area is primarily commercial (Stockyards, future WalMart, etc.).



As previously stated, it is important to note (subject to verification by professional planning consultant and/or City/Township staff) that WNH can locate on any piece of property in the Township or City, regardless of zoning. Section 6.9 of the General Conditions of the Township of Woolwich Zoning Bylaw is reproduced below:

6.9 Public Services and Utilities

Notwithstanding anything contained in this By-law, the Township or any local board or commission thereof, the Regional Municipality of Waterloo, any telephone or telegraph company, a transportation system owned or operated by or for the Township or the Regional Municipality of Waterloo, a gas company holding a franchise under the provisions of the Municipal Franchise Act, R.S.O. c.M.55, as amended, and any department or Ministry of the Federal or Provincial Governments including Ontario Hydro or the Hydro-Electric Commission of Waterloo, Wellesley and Woolwich may, for the purpose of the public service, use any land or erect or use any building or structure in any zone, notwithstanding that such building or structure or proposed use does not conform to the provisions of this By-law for such zone. There shall be no exterior storage in yards of goods, materials or equipment in any Zone R-1, R-2, R-2A, R-3, R-4, R-5, R-6, R-7, C-4 or C-5. Outdoor storage in any other zone shall conform to the regulations of the zone relative to outdoor storage in the zone. Any buildings erected or used under the provisions of this sub-section within any Zone R-1, R-2, R-2A, R-3, R-4, R-5, R-6 or R-7 shall be designed and maintained in general harmony with Residential Buildings of the type permitted in the said zone.

A review of a small sample of recent property transactions in this general area would suggest land values in the range of \$30,000 to \$50,000 per acre, depending upon location and proximity to the main commercial core that extends north from Waterloo to St. Jacobs. Land values within this commercial core would be substantially higher.

There may be opportunity for WNH to find a property that meets its size and access requirements on land that is substantially less expensive than the current WNH property. Specific land use and political ramifications would have to be carefully considered in advance of making such a decision.

Conclusions

It is our opinion that the property has a market value as follows:

Existing Building ,Sale Value	\$3,100,000
Existing Building, Lease Value	\$5/sf net (industrial space)
	\$10.50/sf net (office space)
Excess Land (approx 13 acres)	\$3,900,000
Entire Property	\$7,000,000

Thank you for the opportunity to undertake this assignment. Please feel free to contact either of the undersigned if you have any questions or comments.

Sincerely,



Peter Benninger, President, Broker
Coldwell Banker Peter Benninger Realty
519-743-5211x3000



Paul Eichinger, Vice President
Coldwell Banker Peter Benninger Realty
519-743-5211x3049

It is important to recognize that this property valuation does not represent an appraisal nor a guarantee of a value. This valuation is to be used by the addressee only for the purposes discussed, and is based on the assumptions outlined in the report, which are based on current market knowledge. The information contained herein has been obtained from sources which we have deemed reliable but we cannot guarantee its accuracy or completeness.