FINANCIAL POST

FP1 NATIONAL POST, THURSDAY, JANUARY 19, 2006

GLOBAL MARKETS RETREAT

MARKETS

S&P/TSX 11554.49 -135.12

DJ Ind. 10854.86 -41.46

Dollar US85.43¢ -US0.58¢

Gold US$544.50 -US$9.80

FP INVESTING

IT'S SHOWTIME

Harry Stinson's Hospitality notes hinge on success of his club, which opens tonight. *FP12*

PROPERTY POST

ON THE MARKET?

Prominent developer Murray Frum is said to be 'soft listing' his retail empire. *FP7*

FP NEWS

CORNER OFFICE

Royal Bank COO Barbara Stymiest is skeptical of a new survey's findings on the glass ceiling in business. *FP3*

COMMENT

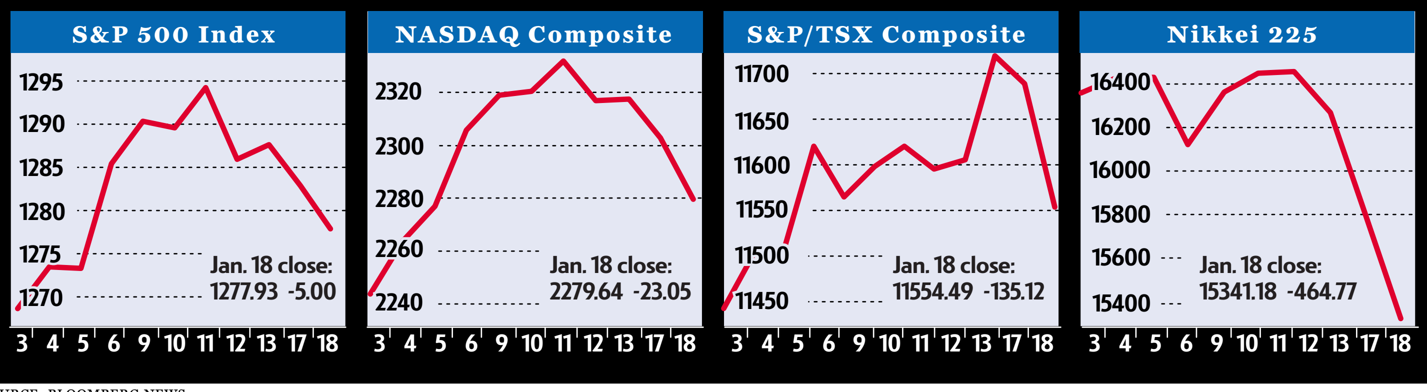
CORCORAN

The SEC's latest doomed attempt to control CEO wages. *FP19*

PAIN FELT AROUND THE WORLD

YOSHIKAZU TSUNO / AGENCE FRANCE-PRESSE

Scandal, technical difficulties and disappointing earnings prompted a huge stock selloff in Japan, leaving investors anxious.



SOURCE: BLOOMBERG NEWS

HOME SALES SET SEVENTH RECORD MARK

RATES DRIVING FORCE

By Garry Marr

Existing home sales across the country set a record for the seventh straight year in 2005, but industry analysts predict we won't have the same experience in 2006.

The Canadian Real Estate Association said its year-end statistics for the country's top 25 markets, a good proxy for the entire country, show 2005 sales came in 4.7% ahead of 2004's record pace.

Sales records were set in 11 of the markets, including Toronto, Calgary, Vancouver, Edmonton and Montreal.

Unlike past housing booms that have been confined to one part of the country, this one appears to be Canada-wide.

"One of the things that sticks out this year is how remarkably strong resale housing is across Canada," said Gregory Klump, chief economist with CREA. "The main reason we have had such a long run on a strong resale housing market is the continuation of low mortgage rates. It is the single most important factor that has been boosting housing activity."

He noted the five-year closed mortgage, the most popular borrowing vehicle for Canadians, is now 6.3%, based on the posted rate.

See RECORD on Page FP7

HBC real estate not up to snuff

Teachers found holdings not enough to offset retail

By Theresa Tedesco and Hollie Shaw

Hudson's Bay Co.'s disappointing real estate holdings, more so than its sagging sales, have so far kept a number of potential investors out of the bidding for the retail giant, sources say.

Ontario Teachers' Pension Plan looked at HBC's books two years ago as a possible real estate investment, but decided the value that could have been extracted from the properties was not enough to make up for the underperforming retail operations.

"Teachers looked at it [HBC] superficially, thinking that real estate would have been the huge attraction but it didn't pan out," said a source familiar with the due diligence. "There were a lot of lousy leases and when you started to go through it, there wasn't all that much. At the end of the day, you couldn't jump up and down."

Like most potential suitors for the retail giant, Teachers, which manages $88-billion in assets, had assumed that despite HBC's retail woes and its underperformance, the company's underlying value was locked in its 566 stores across Canada.

"This would have been a lot of work," said the source.

See PROPERTY on Page FP5

NORM BETTS / BLOOMBERG NEWS

Hudson's Bay has "a lot of lousy leases," according to one source.

BlackBerry work-around may fail in U.S. market

NEW RIM WARNING

By Kevin Restivo

Research In Motion Ltd. says a plan to keep its popular BlackBerry devices operating in the United States should it lose a patent infringement case against **NTP Inc.** might fail.

The statement, included in court papers filed late Tuesday, seems to contradict previous statements from RIM, which had said a "software work-around" will keep BlackBerrys churning out wireless e-mails even if a Virginia judge grants NTP an injunction banning the device from the United States.

"The work-around [is not an] instant or technologically uncomplicated solution to ensure undisrupted service if an injunction went into effect," RIM said in reference to the work-around that is designed to bypass NTP's controversial patents.

RIM could soon lose a four-year court battle against NTP, a tiny patent holding firm that capitalizes on patents of since-deceased inventor Thomas Campana last decade. NTP was awarded US$53.7-million, 8.55% of RIM's future U.S. sales and a ban on the device in August, 2003.

See WORK-AROUND on Page FP6

TECH STOCKS HIT

Investor worries may be beginning of correction

By David Berman

Global stock markets were pummelled yesterday after investors reacted to disappointing earnings from technology bellwethers in the United States and a dramatic downturn in Japan.

Japan's benchmark Nikkei 225 index tumbled 2.94% yesterday, marking its third decline in as many days and bringing the total loss to 7%. Since Friday, more than US$300-billion has been erased from the value of companies listed on the Tokyo Stock Exchange.

"People feel that they have nowhere to turn, so they have to take some cash out. They're wondering if this will lead to a bigger bust, I suppose," said Stephen Hill, a fund manager at MFC Global Investment Management.

Despite worries among many investors that yesterday's selloff could be the start of a systemic decline for global equities, some observers were quick to note that the setback looks more like a short-term correction.

Robert Spector, chief economist at McLean Budden, said the downturn may be largely technical in nature, given the explosive rise in global equities in the second half of 2005.

"It's part of the rhythm of cycles, that you're going to get these pullbacks," Mr. Spector said, pointing out that investors did not flock to typical safe havens as stocks declined.

For example, U.S. and Canadian government bond prices barely budged yesterday. As well, the price of gold, which often rises when stocks decline, fell about 2% in New York.

Still, yesterday's declines were remarkable in that they were so widespread, with substantial declines in markets across Asia, Europe and North America.

The Dow Jones industrial average fell 0.38%, led by Intel Corp.'s 11.4% free-fall. The broader Standard & Poor's 500 index fell 0.39%. And the tech-heavy Nasdaq composite index fell 1%.

In Europe, Germany's DAX index was the biggest loser among major markets, falling 1.18%.

Canada was not immune to the setback. The S&P/TSX composite index fell 1.16%. Energy producers EnCana Corp., Canadian Natural Resources Ltd. and Nexen Inc. led the retreat, despite the fact that crude oil prices remain near record levels.

Although it is unclear whether the worldwide downturn will persist, some strategists believe investors may be reacting to a fundamental change in expectations for corporate profits.

"You've got optimism pushed to an extreme, and that optimism is being challenged by the earnings season — and it's spreading globally," said Myles Zyblock, chief institutional strategist at RBC Capital Markets.

He said that many U.S. companies are now either missing their fourth-quarter earnings expectations or they are giving lower guidance for future earnings.

"It's very early in the reporting season, but my feeling is that this will be the first quarter in a long time when companies report earnings below what was initially expected by analysts. Looking forward, I don't think this will be the last quarter," Mr. Zyblock said.

Vincent Delisle, strategist at Scotia Capital Markets, added the U.S. economy is showing signs of slowing down, with rising interest rates, a weaker housing market and a flat yield curve contributing to the pessimism.

"To get a substantial and lengthy decline in equities, you need to see some very visible deterioration in U.S. and global economic indicators, which is certainly not the case at this point," Mr. Delisle said.

See MARKETS on Page FP10

PROPERTY

'It's a super, super tight market and, just in the last week or two, we're having real difficulty filling our orders'
— *Christopher Ridabock*

	UNIT SALES 2005	UNIT SALES Year-year % change	AVERAGE PRICE 2005	AVERAGE PRICE Year-year % change
Calgary	31,569	19.1	250,832	12.6
Edmonton	18,634	5.6	193,934	8
Halifax – Dartmouth	6,422	16.4	188,484	7.6
Montreal	49,506	1.9	203,720	7.8
Ottawa	13,300	-1.2	248,358	4.3
Quebec City	8,906	10.4	141,485	9.6
Regina	2,730	-2	123,600	10.5
Saint John	1,901	17.9	119,718	2.5
Toronto	85,672	1	336,176	6.6
Greater Vancouver	42,222	11.2	425,745	13.9

SOURCE: CANADIAN REAL ESTATE ASSOCIATION
ANDREW BARR / NATIONAL POST

Sales to remain strong without fear of 'bubble'

RECORD
Continued from Page FP1

"That's pretty close to the low and remember, too, that lenders offer discounts off the average rates."

Those rates have allowed more Canadians to buy homes, but low borrowing costs also provide a means to pay more for a home and ultimately boost sale prices.

Ottawa-based CREA said the average price of a home sold in the country's top 25 markets hit $266,206 in 2005, a 9.3% jump from a year earlier. It's the fifth straight year house prices have risen by more than 9%.

The bad news for the market is just about everybody is expecting some sort of pullback in sales activity with price gains of about 5%.

"We expect housing activity to fade slightly this year," said Mr. Klump, noting some regions will fare better than others. "Alberta and B.C. are expected to continue to remain stronger than the national average. Energy and demand for commodities are making for strong provincial economies there."

Most analysts had predicted a slowdown in 2005, which never materialized because rates did not rise as much as expected.

The main hurdle for housing continues to be a fear of rising rates. The Bank of Canada is expected to raise short-term rates one-half of a percentage point between now and the spring, noted Mr. Klump. That would affect anybody with a variable rate mortgage tied to prime.

One other fear that continues to hang over the Canadian market is what is happening in the United States, where all signs point to a bubble bursting. November new home sales in the United States fell by the most they have in 11 years and there are a record number of unsold homes in the country.

By comparison, Canada had its second-best year in the past 17 for new home construction, and housing does not appear to have been overbuilt in this country.

ALBERTA, B.C. MARKETS EXPECTED TO RETAIN HEAT

Analysts point to far less speculation in the Canadian housing market than that of the United States, and borrowing levels that are not nearly as high or as dangerous.

Michael Polzler, executive vice-president of Re/Max Ontario-Atlantic Canada, said that while he, too, is predicting a slowdown he does not see a meltdown.

"A lot of the bubble talk is very American," said Mr. Polzler. "They are a totally different animal than us. They are highly leveraged. You have 100% financing on homes, sometimes more. It's rare for Canadians to have borrowed more than 90% [of the price of their home]."

Perhaps the biggest difference, according to Mr. Polzler and others, is there has just not been the same ramp-up in prices as the United States has seen. Some U.S. regions have recorded price increases of 20% year-over-year while national U.S. home prices are up 13.5% from a year ago, based on November statistics suppled by the National Association of Realtors.

By comparison, only four of Canada's top 25 markets recorded double-digit increases in 2005. Vancouver, the hottest market, only saw a 13.7% increase in the average price of a home sold, second-place Calgary an 11.9% increase.

Financial Post
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Frum said to be 'soft listing' malls

Prominent Toronto developer denies his empire on block

GARRY MARR
Foundations

Long-time real estate developer Murray Frum is ready to sell some of the last remnants of his property empire, according to several sources.

Mr. Frum has quietly enlisted **BMO Nesbitt Burns Real Estate Inc.** to canvass potential buyers for five of his outdoor shopping centres, hoping to fetch as much as $140-million.

The former dentist turned developer, who was married to the CBC journalist Barbara Frum, said in an interview he has no plans to sell.

"I have no comment," said the septuagenarian from his Toronto office when asked whether he was selling. "We are not selling. The world does not know me as a seller. Our history is that we do not sell."

Mr. Frum is said to have amassed millions of dollars in real estate over the years. He began his career as a dentist, simultaneously working as a developer. By 1970, he was out of dentistry, focusing strictly on real estate and developing up to three strip malls a year at the peak of his real estate career.

In the mid 1990s, Mr. Frum attempted to roll some of his assets into a real estate investment trust with a $100-million offering but it did not sell. In 1996, he sold 1.2 million square feet of retail to RioCan REIT, whose chief executive, Ed Sonshine, was Mr. Frum's longtime lawyer.

One of Mr. Frum's more high-profile real estate forays was an attempt seven years ago to buy the SkyDome and its two chief tenants, the Toronto Blue Jays and the Toronto Argonauts.

This time, the very private Mr. Frum may be testing the waters as commercial real estate prices are thought to be near the top of the market.

Sources indicate he has five malls on the block, including ones in Cambridge and Alliston, Ont. Another is located in New Brunswick.

Speculation is that BMO has been hired for a "soft listing." Trevor Blakely, who was recently managing partner of Brascan Financial Real Estate Group before being lured to BMO, is handling the transaction for the bank.

The soft listing, as opposed to a signed contract, amounts to Mr. Blakely pitching the portfolio to potentially interested parties.

"I wouldn't say this is 'A' real estate," said one senior executive about the properties on the market, "but it will attract interest. He's probably looking at [record] prices like everyone else and considering selling."

CB Richard Ellis Ltd. is calling for another banner year for commercial real estate investment activity.

The real estate company said sales in the office sector led the way with almost $6-billion in trade activity in 2005, a 42% jump from the previous year.

It said Canadian institutional buyers were major players last year, helping to drive foreign buyers out of the market. Foreign investment in Canadian commercial real estate fell to 9.5% of all transaction dollars last year, down from 20.1% in 2004.

"This is expected to continue in 2006," said CB Richard Ellis, predicting large Canadian pension funds and other institutional players will be a market force.

The company doesn't believe there is much room for cap rates — the rate of return investors are willing to accept — to fall. "The risk premiums have reached very low levels," said CB Richard Ellis.

The company said cap rates have fallen to 4.25% in some markets for some classes of real estate. That's extremely low given that Government of Canada 10-year bonds are trading just below 4%.

Institutions are willing to accept such a low rate because they are looking for cash flow, and there is plenty of upside for investors as vacancy rates improve.

CB Richard Ellis expects eight of Canada's 10 major office markets to experience declining vacancy rates in 2006, the national rate to drop to 8.5% from 9.2% in 2005.

The industrial sector, which saw massive construction in 2005, will likely see an increase in vacancy rates. Still, CB Richard Ellis says it will only check in at 5.2% in 2006, up slightly from the 4.9% in 2005.

Financial Post
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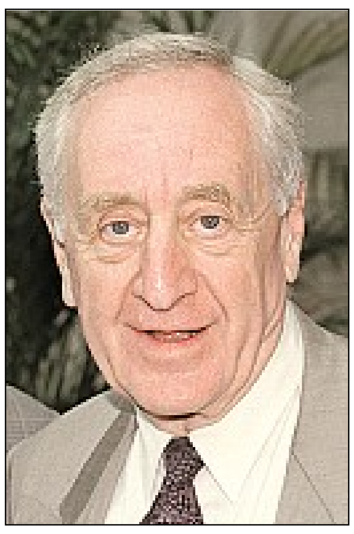

CLAIRE BURTON FOR NATIONAL POST
Frum: "We do not sell."

Office rents for Calgary's top-notch buildings soar

VACANCY RATE PLUNGES

BY MARIO TONEGUZZI

CALGARY • The extremely tight downtown office market is pushing rental rates for top-quality space to the unheard vicinity of $40 a square foot.

In fact, some downtown landlords are already asking for that magical figure, according to Michael Gigliuk, director of research for Alberta for **CB Richard Ellis**. "That's the first time in our market we've ever had an asking rate in the $40s. So that's a new threshold," said Mr. Gigliuk.

He said the buildings under construction are almost 80% pre-leased. "If they become 100% pre-leased, or if those landlords decide that their high $20s rate for tenants coming into their new buildings is too low, they may increase those rates," said Mr. Gigliuk. "The demand has been exceptionally strong for the product that's coming out of the ground right now."

According CB Richard Ellis, the vacancy rate for Calgary's prime downtown office market is 0.4% down from 4.9% a year ago.

Christopher Ridabock, president of JJ Barnicke Calgary Inc., said rental rates in Calgary depend on building quality.

He said the top of the downtown market is generally in the $35-to-$37-per-sq.-ft. range and buildings in lower classifications are in the $25-to-$27 range.

"Two years ago — and only two years — you probably could have done the same deal at around $17 to $21 a sq. ft. That's how much it's gone up. The top of the heap would probably be in the $20 to $21 range," said Mr. Ridabock.

"It's a very significant increase. "I've never seen it before. I've never seen it in any market where the vacancy is so low.

"It's a super, super tight market and, just in the last week or two, we're having real difficulty filling our orders and in some cases even as small as 10,000 sq. ft."

CanWest News Service, with files from Financial Post

INSITE MARKET MONITOR

Downtown core class A available and vacant space

TORONTO

Total office area: 24.7M sq. ft.

Available		Vacant	
2.5M sq. ft.		Jan. '06	8.4%
Direct	8.7%	Dec. '05	8.3%
Sublet	1.3%	Jan. '05	9.7%

MONTREAL

Total office area: 13.7M sq. ft.

Available		Vacant	
1.9M sq. ft.		Jan. '06	11.7%
Direct	11.5%	Dec. '05	11.6%
Sublet	2.4%	Jan. '05	12.7%

OTTAWA

Total office area: 8.2M sq. ft.

Available		Vacant	
0.4M sq. ft.		Jan. '06	8.6%
Direct	4.3%	Dec. '05	8.5%
Sublet	1.0%	Jan. '05	4.5%

CALGARY

Total office area: 16.7M sq. ft.

Available		Vacant	
0.1M sq. ft.		Jan. '06	0.9%
Direct	0.5%	Dec. '05	1.8%
Sublet	0.1%	Jan. '05	4.6%

VANCOUVER

Total office area: 10.7M sq. ft.

Available		Vacant	
0.6M sq. ft.		Jan. '06	5.9%
Direct	4.4%	Dec. '05	6.2%
Sublet	1.1%	Jan. '05	8.7%

FACT OF THE WEEK: Ł

With the exception of Ottawa, Canada's major markets all experienced increases in occupied area from the previous quarter, totalling 1.6 million square feet.

SOURCE: INSITE REAL ESTATE INFORMATION SYSTEMS INC. NATIONAL POST