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TUESDAY, JUNE 3, 2008



DEBORAH YEDLIN

Enmax treads on private turf

The takeover battle being waged for **Cordero Energy** — while not a blockbuster in the context of size — is interesting on a number of levels.

The obvious place to start is with one of the bidders being a utility owned by the citizens of this city. As taxpayers, it has to be asked whether using taxpayer dollars to buy a business that carries with it a considerably high degree of risk relative to that of a utility is the right thing to do.

Enmax Corp. has taken the position that buying a source of natural gas means it will have more control over its supply costs for its generators, but that couldn't be further from the truth.

The price for natural gas is subject to market forces; the only way to manage natural gas costs is by playing in the hedging world, which also comes with a reasonable amount of risk. It also has to be said that its bid for Cordero is arguably based on a natural gas price that is closer to the \$8 US per thousand cubic feet mark of late 2007 than the current trading price of \$11.69, where it closed Monday.

In other words, the cheap natural gas environment is done; the way for Enmax to manage costs is by building efficient generating facilities, not by buying natural gas companies.

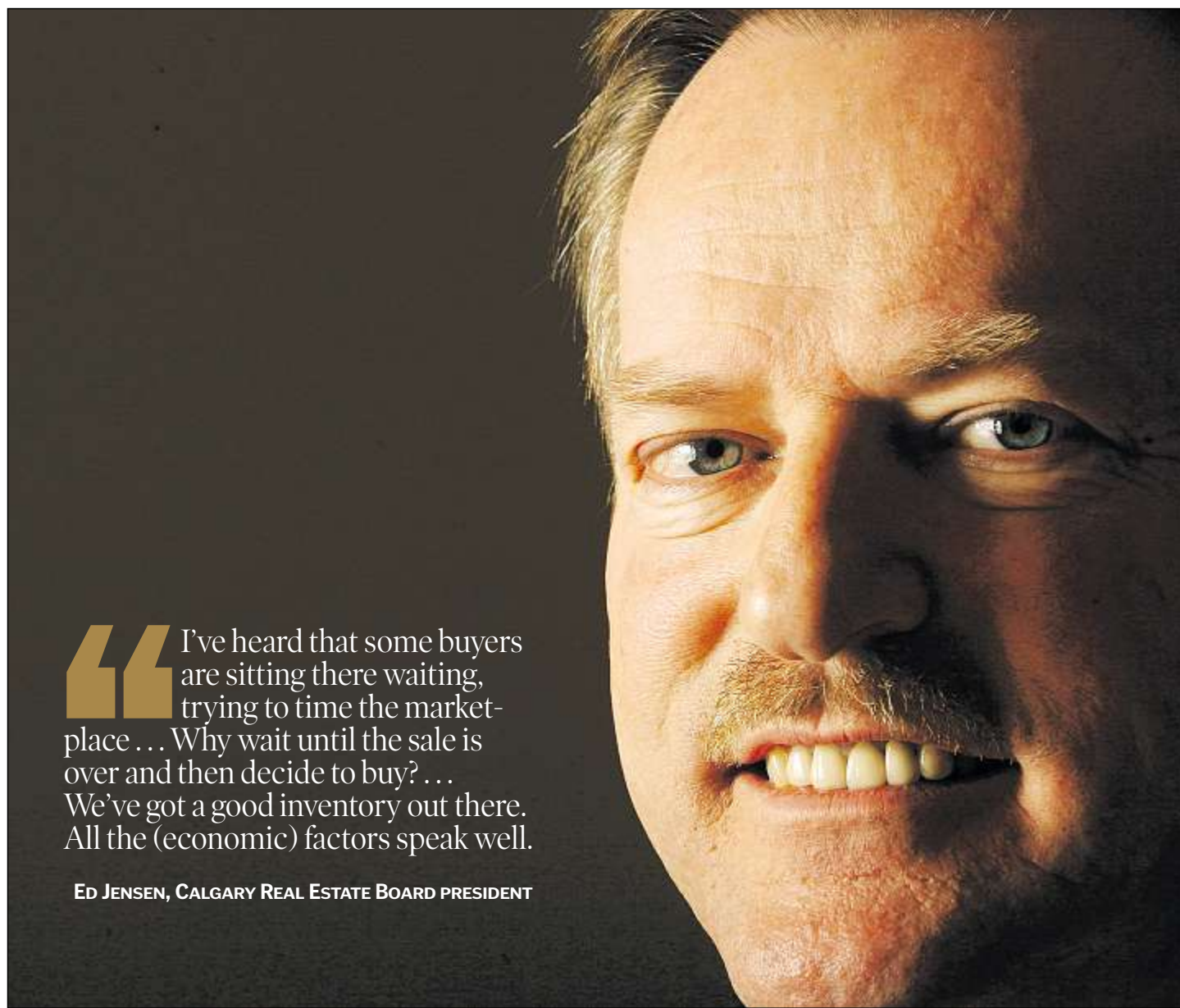
Another fact worth pondering is that an electricity company doesn't exactly have the background to manage a company involved in the exploration and production of natural gas.

Another way of looking at it is this: Natural gas giant **EnCana Corp.** recently announced it is splitting into two distinct entities that will effectively be pure plays in their respective businesses. Amongst the reasons behind the decision was the fact EnCana was not being properly valued in the markets. While Enmax isn't publicly traded — though it should be if it is wanting to behave as being part of the private sector — the same reasons that motivated EnCana's decision can be brought to bear here; just because a company is good in one area of expertise, it doesn't mean that will translate into another.

Enmax might be able to argue that its bid for Cordero — at \$4.75 a share — is better than the rival pitch from **Ember Resources** because it is all cash, but that's not necessarily the case. Certainly the market is thinking differently, because Cordero's shares closed at \$4.84 Monday.

SEE YEDLIN, PAGE D8

PROPERTY INVENTORIES SKYROCKET



Leah Hennel, Calgary Herald

“I've heard that some buyers are sitting there waiting, trying to time the marketplace... Why wait until the sale is over and then decide to buy?... We've got a good inventory out there. All the (economic) factors speak well.”

ED JENSEN, CALGARY REAL ESTATE BOARD PRESIDENT

Home sales plunge from last year's levels

Market cools, but prices remain stable

MARIO TONEGUZZI
CALGARY HERALD

Calgary's resale housing market again showed dramatic cooling signs in May with monthly sales and average prices dropping for both single-family homes and condominiums compared with a year ago, according to Calgary Real Estate Board data released Monday.

MLS sales during the month fell by more than 31 per cent for single-family homes and by almost 35 per cent for condos compared with May 2007.

In the single-family market, the average sale price in May was \$479,564, a decline of nearly two per cent from a year ago, while the median sale price dropped by nearly four per cent to \$419,000.

In the condo market, the average sale price last month was \$311,816, off just over six per cent from a year ago, while the median sale price dropped by over seven per cent to \$285,000.

Despite the declining sales from 2007, CREB president Ed Jensen said the real estate market in the city is steady.

“I've heard that some buyers are sitting there waiting,

CALGARY METRO MLS SALES (MAY)

SINGLE-FAMILY HOMES	2008	2007	% CHANGE
Month-end inventory	7,099	1,450	389.59
New listings	3,432	3,652	-6
Sales	1,368	1,995	-31
Average sale price	\$480,000	\$488K	-1.6
Median sale price	\$419K	\$435K	-3.7

CONDOMINIUMS	2008	2007	% CHANGE
Month-end inventory	3,308	1,173	182
New listings	1,538	1,332	15.5
Sales	577	887	-34.9
Average sale price	\$312K	\$332K	-6.1
Median sale price	\$285K	\$308K	-7.5

Source: Calgary Real Estate Board



trying to time the marketplace... Why wait until the sale is over and then decide to buy?... We've got a good inventory out there. All the (economic) factors speak well — interest rates. The buyer factors are there with a good underlying strong economy. Our sales statistics have

normalized. They've been steady right from January 1st and they remain steady,” said Jensen.

The month-end inventories of residential properties in both markets have skyrocketed compared with a year ago — single-family homes up by 390 per cent to 7,099

listings and condos up by 182 per cent to 3,308 listings.

“Today we have selection. I can find what I want. I can negotiate. I can find the exact house almost to the paint colour,” said Jensen.

“We just have a surplus of inventory and that won't last forever. I think it's a matter of months not years to turn this around.”

The May MLS numbers point to a trend continuing through this year with prices “stabilizing” in both the single-family and condo markets, said Lai Sing Louie, senior market analyst in Calgary for Canada Mortgage and Housing Corp.

“For single-family homes, July last year was the highest average ever (\$505,920),” said Louie. “The price is down compared to last year but it has been rising through the year.”

The average price for single-family homes has risen from January when it was \$455,297. Louie said average condo prices have remained stable throughout the first five months of this year.

“There's still a lot of supply in the marketplace — a record level of supply,” he said. “That will continue to stop any real large price growth, but the data appears to be indicating that prices are starting to come back up. The condos are stable. The single-family is starting to move up a bit.”

SEE MLS, PAGE D8

MARGIN CALLS

Tourism sector braces for crisis

LEISURE • The Canadian tourism sector is on the “brink of a crisis” and Ottawa must step in to prevent its decline by tackling issues plaguing domestic and foreign travel and fixing diplomatic policies abroad, said the president of the Tourism Industry Association of Canada.

The organization released a report Monday suggesting the \$70-billion industry is threatened by a lack of open, efficient travel policies with countries such as China, hefty taxes on flyers and confusing policies for travellers between Canada and the United States.

“Canada's tourism industry is on the brink of a crisis, and we need urgent actions from governments at all levels to address long-standing structural burdens on our industry,” said Randy Williams, the industry association's president.

The report notes Canada ranked 122nd out of 130 countries in a 2008 survey of ticket prices and taxes.

Labour crunch hits construction

JOBS • A quarter of a million construction workers are needed to fill the demands of an industry stretched to the limits by major new infrastructure projects, the Construction Sector Council said in its annual forecast of labour market conditions.

A record 42,000 new workers were hired last year, the survey said, and another 94,000 will be needed over the next eight years to keep pace with new projects.

An even more pressing problem for the industry is the attrition it faces as baby boomers begin retiring, leaving the industry, which employs 1.2 million workers, short an additional 162,000 by 2016, the survey said.

“This is the biggest issue our economy will be faced with,” said George Griztziotis, the council's executive director, warning that “we'll lose that investment if we don't ensure we replenish our workforce in a productive way.”

It is vital, the council said, “to convince young people to sign up for apprenticeship programs.”

HERALD NEWS SERVICES

HERALD ENERGY



The International Energy Agency's Nobuo Tanaka sees demand for energy shrinking

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Resale housing prices and sale numbers not only declined year-to-date in Calgary but also in nearby towns.

FROM DI MLS: Sales decline

He said average prices will likely remain stable until the supply comes down.

"Buyers are taking their time. They're looking around, looking for deals, and that's really forcing the sellers, who have lots of other sellers to compete with, not to be able to ask for more and get it. Usually they likely have to negotiate it with the buyer in these conditions," said Louie.

In the towns just outside Calgary, total MLS residential sales (single-family and condo combined) dropped by almost 32 per cent last month compared with May 2007 and the average sale price fell by almost five per cent to \$375,831. The month-end inventory was up by 132 per cent on a yearly basis to 2,971 listings.

The country residential (acres) market saw sales drop by almost 22 per cent compared with May 2007, but the average sale price increased by almost 12 per cent to \$941,086. The month-end inventory was also up by 74 per cent to 954 listings.

Year-to-date for the first five months of 2008, sales compared with a year ago are down in all residential property categories in the Calgary area MLS market: 33.83 per cent, single-family homes Calgary metro; 37.59 per cent, condos Calgary metro; 30.64 per cent, towns outside Calgary; 20.32 per cent, country residential (acres); and 41.76 per cent, rural land.

MTONEGUZZI@THEHERALD.CANWEST.COM

FROM DI YEDLIN: Enmax plays in private sector

The long-term shareholders that bought into Cordero did so because they saw upside in the company's assets. By taking cash, they lose the opportunity to participate in the company's successes. Moreover, it can't be ignored that Cordero shareholders have not tendered to the Enmax bid — even at \$4.75. That should be taken as a telling sign of their uncertainty as to whether the Enmax offer reflects the full value of the company.

Does this mean the Ember Resources bid is better?

The argument that it is more reflective of the current and future value of Cordero's assets can be made if one considers a few facts.

First of all, even though Ember came out with its offer last week — more than three months after EnMax's original bid of \$4.35 — the notion of merging the two companies was apparently addressed at a high level in both organizations back in January. Among the reasons behind the initial discussions were the similarity of assets between the two companies and the fact that bigger entities tend to have better valuations in the markets because they have a greater degree of share liquidity. It also means institutional players can take bigger share positions.

In this case, we're talking about Ember going from having a \$100-million market value to about \$300 million. While this isn't exactly EnCana size, in the pure-play, coal bed methane world of companies, it would be a move in the direction of the company becoming an intermediate-sized company. It's tough to argue with that strategy, especially when the assets are complementary.

The biggest difference between the bids is that Ember is proposing a share exchange — 2.56 Ember shares for every Cordero share. This means Cordero shareholders need to have confidence in where natural gas prices are headed — as well as the ability of Ember's management to effectively grow production, cash flow and ultimately, market value.

Tendering to the Ember offer means Cordero shareholders don't cap their upside, which is exactly what would happen if they take the EnMax cash and run.

The interesting piece to all this is that the board of Cordero isn't exactly composed of a bunch of neophytes; there are many years of oilpatch experience represented at that table. If they are steadfastly recommending the EnMax offer, it has to be asked whether they know something the rest of us do not. On the other hand, if their duty as a board is to maximize shareholder value, then the Ember proposal cannot be dismissed out of hand.

Still, the elephant in the room on this issue is whether the City of Calgary should be in the business of being in business. The presence of Crown corporations — whether ATB, the former PWA or CN Rail before it was publicized — competing against private sector companies distorts the market and does not make for a level playing field. If EnMax wants to play as a private sector entity, it should be cut loose from the City of Calgary and be allowed to do so. As things stand today, however, it is playing with taxpayers' dollars — and the taxpayers don't even have a vote.

DYEDLIN@THEHERALD.CANWEST.COM

TransCanada joins pipeline bidding war in Peru

BLOOMBERG

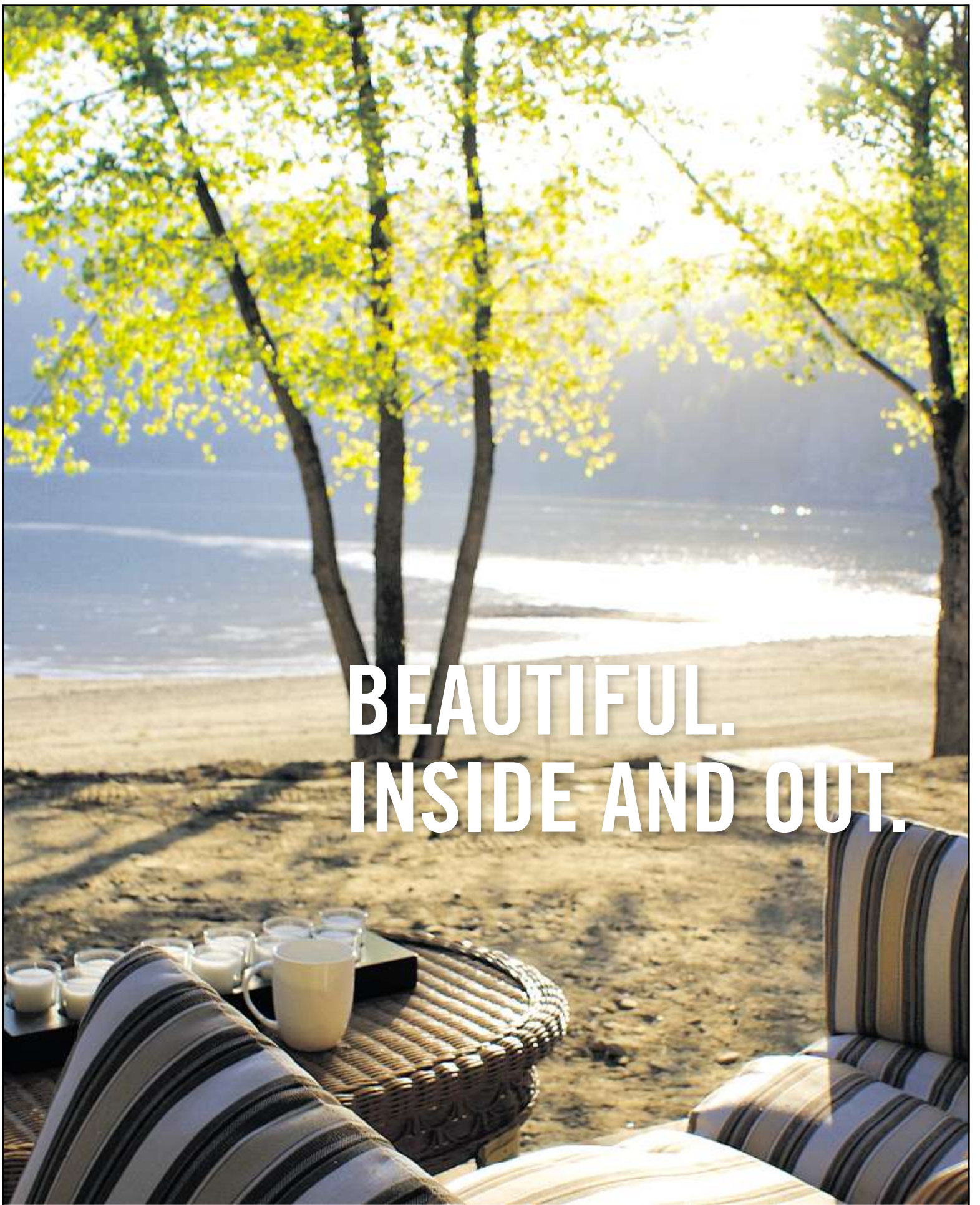
TransCanada Corp. and Petroleo Brasileiro SA may submit a bid to build a natural gas pipeline in Peru, President Alan Garcia said today. Calgary-based TransCanada, which owns Canada's largest gas pipeline system, and Brazil's state-controlled oil company could become the third group

to bid on the duct, which will run from Lima to the south coast, Garcia said in a broadcast by state television TV Peru.

Paris-based Suez SA and New York-based investment fund Conduit Capital Partners LLC are holding talks to submit a joint proposal for the pipeline, which could cost \$850 million to \$1.2 billion. Energy Transfer Partners, a U.S. natural-gas

transporter and propane marketer, has also fielded a bid. Peru could call a bid round for the project "in the coming weeks" if rival projects persist, Garcia said.

Peru, South America's fifth-largest natural-gas producer, has lined up \$6 billion in investment commitments in its oil and gas industry, mostly by overseas companies.



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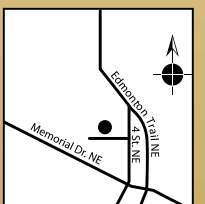
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