

National Post

RioCan REIT tries rate resets

Tue Jan 18 2011
Page: FP2
Section: Financial Post
Byline: Barry Critchley
Column: Off The Record
Source: Financial Post

Through the years RioCanReal Estate Investment Trust has frequently raised capital -- equity either in the form of trust units and convertible debentures, or debt in the form of unsecured debentures.

Until Monday it, along with other REITs, had never issued rate-reset preferred share units. And it had never used the services of Macquarie Capital Markets Canada Ltd., the Australian firm that moved to Canada a few years back following the purchase of Orion Securities. Since then, it has acquired Calgarybased Tristone Capital Global Inc. while another part of the Macquarie Group has purchased the retail network of Blackmont Capital.

There is a connection between Rio-Can's new source of capital and the issuer including Macquarie as a cobook runner, along with traditional book runner, RBC Capital Markets, on its \$100-million financing.

The reason: Macquarie was rewarded for bringing the idea of a pref share issue by a REIT to RioCan's attention. (The original conversation took place about two years back.) Macquarie was aware of the potential of such issuance because it has done similar deals for similar types of issuers in Australia.

But a lot of massaging was required before RioCan was in a position to give the go ahead. Here's a partial list:

- Approval from unitholders was required. So last March, in the circular sent to unitholders, one of the goals of the June 4 annual meeting was to "pass a special resolution authorizing and approving certain amendments to the Amended and Restated Declaration of Trust made as of May 27, 2009 to authorize RioCan to create and issue a new class of preferred equity securities...." That motion was duly passed.

- A tax ruling was required. On Oct. 1, 2010, the company obtained an advance income tax ruling from the Canada Revenue Agency with respect to certain matters relating to these amendments and RioCan's ability to issue Preferred Units.

- The world had to be told. So on Dec. 21, when RioCan filed an amended and restated base shelf short-form prospectus -- a document that allowed it to issue up to \$3-billion of debt securities, units and preferred units -- it said that on Dec. 6, its "declaration of trust was amended and restated to permit the future authorization and issuance of preferred units, and to make certain administrative and non-substantive changes and other changes

resulting from RioCan's ongoing growth."

For its work, Macquarie was given the status of co-book runner, which means it shares in the so-called work fee. It was also given a 10% liability in the five-year 5.25% offering. The rest of the syndicate allocation ran this way: RBC (26%); Scotia Capital (16%); BMO Capital Markets; CIBC World Markets and TD Securities (each 12%); National Bank Financial (8%); Canaccord Genuity (2%); Raymond James and Desjardins Securities (1% each.)

It seems things do repeat themselves in the world of rate reset pref shares. In early 2008, Bank of Nova Scotia brought the first such issue to the market, raising \$345-million. Naturally, ScotiaCapital was the lead manager but Desjardins Securities was also rewarded with a higher-than-otherwise allocation in the syndicate. (It was on the third line just behind CIBC.)

Desjardins was elevated because it played the key role in having the pref shares deemed permanent capital by the Office of the Superintendent of Financial Institutions, the federal regulator.

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Calgary Herald

Industrial real estate vacancy rises; Availability in two buildings pushes up rate

Tue Jan 18 2011

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Section: Calgary Business

Byline: Mario Toneguzzi

Source: Calgary Herald

Illustrations: Photo: Christina Ryan, Calgary Herald / Colliers managing director Joe Binfet says industrial real estate rental rates are facing upward pressure.;

Despite continued demand for new space and lack of any significant new development, the vacancy rate in Calgary's industrial real estate market rose to 5.57 per cent in the fourth quarter of 2010.

A report by Colliers International in Calgary says the increase is a result of two large industrial buildings coming vacant -- the Haworth manufacturing facility (760,603 square feet) and the Enerflex fabrication facility (316,369 square feet).

In October, the city's overall industrial real estate vacancy rate was 4.82 per cent.

Joe Binfet, managing director of Colliers International in Calgary, said the city continues to see momentum in the industrial real estate market.

"The market is slowly switching over in favour of the landlords. At this point we're seeing some upward pressure on rental rates in the big bay market," he said.

"Oil prices being over \$90 certainly helps. We're seeing robust activity in the transportation and logistics sector. We are seeing some (speculative) development now which is encouraging. Landlords are building product for owner/user applications and that's a very good sign for us."

The overall industrial inventory is just over 119 million square feet in Calgary.

"The beginning of 2010 was the highest industrial vacancy the market has experienced in the last 10 years at 6.38 per cent," says the Colliers report. "This was mainly attributable to the overall recession of 2009, which had resulted in a slow and stagnant market, as well as an accumulation of large speculative development remaining unoccupied. The stagnancy experienced in 2009 appeared to have lifted in some market segments with the turn of the new year as vacancy began to decrease."

Absorption in 2010 was just over two million square feet, nearing the level seen in 2007 and nearly twice as much as the previous two years combined, adds Colliers.

"Looking forward to the leasing market in 2011, the overall trend of decreasing vacancy from 2010 is expected to continue," says the report. "The high amount of absorption is a strong indicator of healthy demand in the market which will continue to consume vacant product."

Meanwhile, Statistics Canada reported Monday that investment in non-residential building construction in the Calgary census metropolitan area was \$875 million in the fourth quarter of 2010 which was down 14.2 per cent from last year and by 7.1 per cent from the previous quarter. Investment in the industrial sector dropped by 1.3 per cent from a year ago to \$20.2 million while the commercial sector was off by 4.8 per cent to \$469.6 million and the institutional sector decreased by 10.1 per cent to \$385.5 million.

Alberta also saw declines in investment in non-residential building construction with the fourth quarter 2010 value of \$2.2 billion off by 1.8 per cent from the previous quarter and by 6.6 per cent from a year ago.

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The Globe and Mail

Short list of bidders for athletes village could come this week

Tue Jan 18 2011
Page: A12
Section: Toronto News
Byline: Anna Mehler Paperny

As the city grapples with ballooning costs of its ambitious Pan- American project, plans for the village that will host thousands of athletes, and subsequently morph into a mixed-income waterfront community, are moving forward. Infrastructure Ontario plans to announce the successful short-listed bidders for the project over the next several days.

But the project remains fraught with unknowns: How will it be financed? What's the definition of "20 per cent affordable housing," and how much will that ratio change in the coming months?

It's still not clear whether a planned light-rail extension along Cherry Street will materialize. While Waterfront Toronto - and the developers bidding on the project - are still planning for it, Mayor Rob Ford has publicly opposed light rail and the province confirmed Monday there is no funding for that project.

A successful bidder won't be named until this summer at the earliest, which means time constraints will be very tight. The drop-dead completion date is early 2015, which leaves about 3 1/2 years to design, build and - crucially - sell thousands of units of prime waterfront development.

And while its proponents insist this is nothing like Vancouver's athletes village experience - where the city ended up holding the bag for the project when its private developer failed to meet payments - the spectre of Toronto's project becoming a municipal money pit looms large.

"My strong advice to anybody thinking about building a village is, don't try to make it two things at once - utilitarian, short-term lodging for athletes and a long-term, luxury condominium project," said Vancouver Councillor Geoff Meggs.

"That doesn't mean it can't be on the waterfront - I don't see why low- income people shouldn't have a view. But the economic plan has to be in the public interest, not an attempt to participate in the marketplace on a speculative issue, which is what happened here."

Vancouver's cautionary tale hasn't stopped Toronto developers from bidding on the Pan-Am village, however. They are now waiting for an announcement by Infrastructure Ontario - possibly as soon as Friday - as to who made the short list. Those short-listed will be invited to bid on a request for proposals, and a final candidate will be chosen this summer.

The three-year design/build window is daunting but doable, says Cityzen Development's Joe Cordiano;

more challenging is whether there will be enough takers for thousands of units in a short period of time.

"I don't think the issue is really the construction deadlines - we can certainly meet those," he said. "I think the challenge is going to be with respect to the marketplace and the absorption rate for these units."

While Cityzen has expressed interest in the project in the past, Mr. Cordiano would not confirm whether it has bid.

"There are many challenges," said Tridel's sales and marketing vice- president Jim Ritchie. "We would not have gone this far if we'd not thought we could overcome them. We think we have very viable solutions."

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The Globe and Mail

Mindful of election, Tories move on mortgages; Jim Flaherty's tighter rules allow Bank of Canada the flexibility to raise interest rates at its own pace

Tue Jan 18 2011
Page: A1
Section: National News
Byline: Bill Curry and Jeremy Torobin
Dateline: OTTAWA

OTTAWA -- Facing the possibility of interest-rate increases during an election campaign and growing worries about consumer debt, Finance Minister Jim Flaherty moved again to unwind some of the riskier mortgage schemes he once sanctioned and encouraged.

As of March 18, the maximum amortization period for government-backed insured mortgages will drop to 30 years from 35. The government will also lower the maximum amount Canadians can borrow in refinancing their mortgages, to 85 per cent of the value of their homes from 90 per cent, and in April will pull government guarantees on lines of credit secured by homes.

By acting now to stop more Canadians from getting in over their heads with debts they won't be able to service, the government is putting political distance between itself and the central bank's inevitable - and inevitably unpopular - return to higher borrowing costs. At the same time, the move gives Bank of Canada Governor Mark Carney added flexibility to leave interest rates alone until he believes raising them is the right course for the economy as a whole, instead of risking economic damage for the sake of a small subset of borrowers.

Mr. Flaherty's decision also allows the government to separate the issue from a federal budget that could serve as the blueprint for an election campaign just weeks later.

Opposition parties' reaction to the measures suggests the government would be wise to neutralize the debt issue now, lest a possible spring campaign be peppered with reminders that the loose borrowing climate for the housing market was in part created by the Harper government.

Most economists say Mr. Carney, who will likely leave his benchmark interest rate at 1 per cent Tuesday morning, could be on hold until at least midyear, now that Mr. Flaherty has taken another crack at a problem the central bank sees as the No. 1 risk associated with having rates so low.

"There is a clear linkage between what Finance is doing and monetary policy," said Benjamin Tal, deputy chief economist at CIBC World Markets in Toronto. "If [Finance] didn't move, then Carney might have been more aggressive. So there is a linkage and the timing is maybe designed to separate the two and show there is no linkage, but there is."

At a news conference in Ottawa, Mr. Flaherty said government policy aims to strike a balance between supporting the housing market and avoiding debt trouble.

By that, he was referring to the fact that his government already acted in 2008 to reduce the maximum government-backed mortgage from 40 years to 35 years, as well as introducing measures last year that made it harder to qualify for mortgages. On Monday, Mr. Flaherty indicated the government is particularly concerned about Canadians using home-backed lines of credit for frivolous purchases.

"Some of those loans are not used to create housing," he said. "They're used to buy boats and cars and big-screen TVs, things like that. And that's not the business that [mortgage] insurance was designed for."

The governing Conservatives are clearly attempting to use these moves to further their argument - highlighted again in new political ads this week - that only they can be trusted to be prudent managers of the economy. Yet by tying the party's brand so closely to Mr. Carney's warnings about consumer debt, the Conservatives may run the risk of negative associations as the central bank moves to lift rates.

Moreover, Mr. Flaherty's critics are quick to point out that his first budget stoked the conditions that allowed some borrowers to get in way over their heads.

The Conservatives came to office in early 2006, as the government's mortgage insurer - Canada Mortgage and Housing Corp. - was in a heated battle with new private-sector insurers from the United States. The competitive pressure saw CMHC lift the 25-year limit on the mortgages it was willing to insure all the way to 40 years over about nine months.

Mr. Flaherty's first budget doubled the amount of federal cash available to back private mortgage loans, "in order to keep pace with the increase in housing prices," and promised the measures would give consumers greater choice and promote home ownership.

"He has to take some responsibility for having contributed to this problem," said Liberal finance critic Scott Brison.

Pollster Nik Nanos said the political motivation for

the Conservatives is to contain the potential for blowback from voters who will not be happy with future interest rate increases.

"There's a political risk in having the government, any government, closely associated with a high-interest rate policy," Mr. Nanos said "I think the Conservatives are looking to politically inoculate themselves."

The Bank of Canada chief and his officials have sharpened their warnings on debt over the past year, while strongly implying that they view narrowly tailored regulatory changes as more appropriate to deal with the issue than lifting borrowing costs throughout the economy.

As it became clearer late last summer that Mr. Carney might need to pause his rate increases for several months amid a slower-than-anticipated U.S. rebound, he ratcheted up his warnings on debt, detailing how the problem could spark a wider financial or economic crisis if left unchecked.

In December, Mr. Carney gave a speech and media interviews to drive the point home.

With a report from Steve Ladurantaye in Toronto

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The Globe and Mail

Ripple effect may slow economy; Ottawa's tightening of mortgage lending will have a negative impact as homeowners will have a harder time tapping their equity

Tue Jan 18 2011

Page: B8

Section: Report on Business: Canadian

Byline: Tavia Grant, Steve Ladurantaye, Rita Trichur

Ottawa's new mortgage and lending rules are being hailed as crucial to stopping Canadians from drowning in debt, but they come with a downside: slower consumer spending.

Finance Minister Jim Flaherty unveiled measures governing mortgages and home equity lines of credit on Monday, bemoaning the fact that some Canadians are using them to buy "boats and cars and big-screen TVs."

The changes will create the most headaches for cash-strapped first-time home buyers and those consumers who are increasingly using their homes as ATMs. Still, experts argue this latest crackdown is for Canadians' own good.

While the new rules may initially slow the economy, some say they'll help improve the financial health of households over the long run.

But they will also have ripple effects on many pockets of Canadian business including home builders, real estate agents, renovation industry and retailers.

Homeowners have taken out about \$46-billion in equity from their homes, according to the Canadian Association of Accredited Mortgage Professionals.

Mr. Flaherty is concerned that some Canadians are using home equity lines of credit to buy consumer items instead of renovations or building equity in their homes.

"I think that's particularly risky because some of those loans are not used to create housing in Canada," Mr. Flaherty said. "They're used to buy boats and cars and big screen TVs, things like that. And that's not the business that home insurance was designed for, mortgage insurance."

Mr. Flaherty and other policy makers are increasingly worried about the Canadian consumer, who drive two thirds of the country's economic activity. Debt to income levels have now reached U.S. proportions, with Canadians now owing \$1.48 for every \$1 in disposable income.

A quarter of funds by home equity lines of credit borrowers are used for renovations. The rest is a range of other ways, from vacation to buying cars, daily spending and consolidating debt, according to a FIRM household borrowing survey last year.

Gerald Soloway has witnessed the shift. The head of Home Capital Group Inc., which has about 40,000 mortgages in Canada, says the mortgage-backed lines of credit were originally intended to help people make improvements to their homes. The reality, however, is "it became an ATM for weekend recreation."

It will become a "little more expensive and there may be a little behaviour modification" among consumers seeking such loans, he says.

Credit-counselling agencies - which have reported a wave of new indebted clients over the past year - welcome the move, saying it may temper debt levels. But some say the measures don't go far enough.

"Let's take a step further and show people how to get out of debt," said Jeffrey Schwartz, executive director of Consolidated Credit Counseling Services of Canada. People must "live within their means."

Monday's move is a "step in the right direction because it means more money in consumers' pockets," said Laurie Campbell, executive director at Credit Canada. However, scores of Canadians have already opted for longer-term amortization periods because they didn't fully realize the extra costs involved - and that will limit their ability to retire, pay for their children's education or save.

Canada's \$44-billion home renovation will be affected, according to Bank of Nova Scotia. The home reno sector now accounts for a record share of the country's GDP - at 2.8 per cent - but that could cool. The consequences of a slowing reno market are "far reaching," Scotiabank cautions, ranging from employment to retail stores and manufacturing.

While winter is typically a slow period for residential real estate agents, some buyers may be tempted to move quickly to get ahead of rising interest rates and to qualify for the longer amortization period.

"We had already said that demand would be pulled forward first half of the year by the threat of higher mortgage rates, and this certainly adds fuel to that fire," said Phil Soper, president of Royal LePage.

Any cooling in pricing or accessibility to home equity lines of credit may also dampen consumer spending on big-ticket items, like cars, furniture and plane tickets.

But the cooling off may not be a bad thing if it leads to more stable household finances. Craig Alexander, chief economist at Toronto-Dominion Bank, says he'd already factored in slowing consumer spending - to about 2.5 per cent this year from about 3.5 per cent this year.

"Going forward, as the Bank of Canada raises rates and with some tightening in mortgage insurance rules, I don't think you're going to see the same degree of strength in consumer spending."

Graydon Hall, 32, of Toronto has access to a \$136,000 credit line that is secured against his two-bedroom detached home - but does not use it.

"I really don't like paying interest ... I just don't want to give money away," said Mr. Hall.

But Jakub Abramowicz, a mortgage agent with Mortgage Edge based in Richmond Hill, said clients like Mr. Hall are the norm. "People who have home equity lines of credit are already in a relatively stable financial position where they would not be using it for frivolous things like a TV or a vacation - most of them."

Others like Nadia, a married mother of three from Amherstburg, Ont., admits her family used both credit cards and two lines of credit to support a lifestyle they could not afford.

The recession pushed their finances over the edge. "We really felt it. There were bills not being paid. There were creditors calling."

The family owes \$186,000 on their mortgage and about \$48,000 for five credit cards and a line of credit.

They also have a second line of credit that is secured against their home and is full drawn with a \$5,000 balance. But Nadia says money is so tight that she can only afford to pay the interest on that loan, about \$50 a month, and is not sure when it will be paid off in full.

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