

The Globe and Mail

Grocers scramble to offset higher food, fuel costs

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RETAILING REPORTER

Call it the incredible shrinking package. Loblaw Cos. Ltd. recently scaled back to 750 grams from 800 grams the amount of cereal in a box of one of its President's Choice granolas, but has also raised the price to \$5.79 from \$4.99 since last year.

Loblaw is far from alone in downsizing packages and upsizing prices. It is a common practice in the grocery industry, underscoring how supermarkets today are racing to find ways to ease the pain of higher food and fuel costs while shoring up profit margins.

After having prospered last year from a strong loonie despite food deflation and escalating competition, grocers are preparing for an era of food inflation.

Even as profit margins improve - helped by a rising Canadian dollar that lowers many purchasing expenses - Loblaw and its rivals are struggling to make sales gains in a the cutthroat environment that has seen discounter Wal-Mart Canada Corp. rapidly expand into food. On Wednesday, when Loblaw reports its first-quarter results, the country's largest grocer is expected to shed more light on how it's grappling with limited growth opportunity in the food aisles in a period of soaring costs.

While moderate inflation is an ally to the food retailer, price increases of more than 2 to 3 per cent can spell trouble, Loblaw president Allan Leighton has warned. Recession-shaken consumers are sensitive to dramatic price hikes, and simply switch to cheaper alternatives.

When prices jump beyond 2 to 3 per cent "then it really starts to whack the market," Mr. Leighton said in February. "I'd rather be in a place of deflation than a place of high inflation."

In March, the tab for food bought in stores jumped 3.7 per cent, marking the biggest year-over-year increase in 19 months, according to Statistics Canada. Surges in global commodity prices, spiralling fuel prices and bad weather in the southern U.S. are continuing to drive up prices. And higher gas price threaten to curb consumer spending.

Grocers have reported lower prices than Statscan because their customers trade down, opting for cheaper alternatives than the items listed in the federal agency's sample of groceries. But the retailers acknowledge that they're starting to raise prices. Already this year, Loblaw hiked prices of vegetables, fruits and meats. Other price adjustments are more subtle, such as shrinking packages or launching new

products.

In the case of its PC Blue Menu Raisin & Almond granola, Loblaw's website last week was still touting an 800 gram box even though its stores carried a shrunken 750-gram package - 6 per cent smaller but almost 16 per cent more expensive than last year at its conventional stores.

And the retailer stocks a new Blue Menu almond-vanilla Omega-3 granola in the same size box as the raisin-and-almond version but with just 600 grams of cereal - at the same \$5.79 price.

In response to a cautious consumer, grocers try to camouflage price increases by downsizing packaging, rolling out new products or adding healthy-for-you components to justify higher rates, said Michael Mulvey, marketing professor at the University of Ottawa Telfer School of Management. Consumers often don't readily notice a different package or content size, he said. "So potato chips all of a sudden contain 15 per cent less chips but the bag [size] won't change much."

And grocers can get away with higher prices if they're providing a more convenient or healthy product, he said. He cited the example of Pepperidge Farm's Goldfish cheddar snacks which, at Loblaw, cost \$3.29 for both a 200-gram and a 168-gram package. Because the latter consists of six 28-gram snack packs, "they're providing consumer value, in the sense that it's more portable, easier to pack," he said. "It is a very effective way of selling less food ... and helping the bottom line."

Another grocer strategy to deflect attention from inflation is running "last-blast" promotions before jacking up prices, retail analyst Perry Caicco at CIBC World Markets said in a recent report. Or, as Loblaw did when it unveiled its new almond-vanilla granola, the retailer initially featured it at a lower price of \$3.49 before raising it to its current \$5.79.

And as grocers focus on dealing with spiralling food costs, they feel strains on another front: higher prices at the pump. In a report in March, market researcher Nielsen Co. predicted that the double whammy of rising gas and commodity prices will prompt consumers to follow historic patterns: make fewer trips to the grocer, eat out less, switch to cheaper shopping alternatives and use more coupons.

"The impact on household budgets can be significant," it said. A 10-cent-a-litre increase in gas, for example, slices consumer spending by \$30 a month.

Winnipeg Free Press

Industrial revamp a green winner

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Byline: Murray McNeill / Commercial Real Estate

A nearly half-century-old St. James industrial building is getting an extreme makeover and the investment is already paying big dividends for the owner.

Winnipeg-based Neptune Properties Inc. is spending several hundred thousand dollars to refurbish a 48-year-old, 65,000-square-foot industrial building at 1245 Border St.

Although the makeover is still several weeks away from being complete, the company already has a new long-term tenant for the space -- J. R. Stephenson Manufacturing Ltd., a local manufacturer of electrical products. And thanks to the improvements, not only does it have a more valuable asset, it's also getting an extra dollar per square foot in rent, said Neptune asset manager Wendy Finch.

Finch said the upgrades include installing new insulation and energy-efficient lights and erecting a new glass curtain on the front corner of the building to enhance curb appeal.

She said although Neptune has upgraded several other properties -- it owns 11 commercial buildings in the city -- this is its most ambitious project.

The leasing agent for the building -- Murray McRae of Colliers International -- said the upgrades were more extensive than many of the others he's seen.

But they're the type of improvements that appeal to tenants who want to reap some of the benefits of being in a newer industrial building, without having to pay new-building rents -- usually \$7 to \$10 a square foot.

He said even with the kind of extensive renovations Neptune undertook, landlords can usually keep their rents at between \$5 and \$6 a square foot.

"Those rates are still what most Winnipeggers would look at as being acceptable. It's a compromise between old and new."

Mark Thiessen, a commercial agent with Re/Max Professionals, said he expects to see more of these larger-scale refurbishing projects.

He said Winnipeg has an abundance of older industrial buildings that need to be retrooled to meet the needs of a new generation of tenants.

"And in many cases, that is not going to be strictly a warehouse user."

He said there are office tenants looking to move to

industrial parks because parking space is more abundant, rents may be lower, or they want to be in that area of the city.

He, too, has a client who is investing in a building upgrade. It's also a 1960s-era industrial building in St. James -- the 30,000-square-foot complex at 880-888 Bradford St.

Thiessen said the owner is spending about \$300,000 to install new insulation, new windows, a new facade and a new roof. Work got underway about six months ago and will be complete within the next few weeks.

His reasons for doing it were to enhance the value of the property and attract tenants for the 12,000 square feet of vacant space in the building.

The general manager of J. R. Stephenson Manufacturing confirmed the insulation and lighting upgrades in Neptune's building were the main reason it chose it over several buildings it looked at.

"That (having good insulation and energy-efficient lights) makes a big difference over 10 or 15 years," John Tuhkanen said. "The operating costs are going to be much lower than what we have now."

He said the new facade was an added bonus.

Thiessen said one of the most successful refurbishing projects in the St. James industrial area was the conversion about 15 years ago of the former Marshall Wells warehouse at 1395 Ellis Ave. into a retail/office/industrial complex. He said the centre has enjoyed consistently high occupancy rates.

In its spring/summer commercial real estate newsletter, Avison Young also cited a case from about three years ago where a client bought a functionally obsolete, 30,000-square-foot industrial building at 730 Century St. that suffered from chronic vacancy and a lack of parking space.

At the urging of Avison Young agents Murray Bonk and Jamie McPetrie, the new owner demolished the front third of the building to create storefront parking spaces and installed a bright new facade.

The newsletter said the two agents "immediately leased out one side of the building at more than double the previous rate, and then sold the building to another retail user for more than double the initial investment."

Know of any newsworthy or interesting trends or developments in the local office, retail, or industrial real estate sectors? Let real estate reporter Murray

McNeill know at the email address below, or at
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National Post

The we & The now; How a real estate investor is finding value where others failed

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Illustrations: Beth Merrick, The Communications Group / A few of Gil Blutrigh's investmentsThe King Edward Hotel; / Deerhurst Resort; Brett Gundlock, National Post Files / plans for Port McNicoll; / The Metropolitan Hotel;

Just about every entrepreneur in Canada has had to deal with the "Squelcher": the comment from well-meaning friends, relatives and investors who just don't get it. "If your initiative were possible," such people say, "don't you think someone would have already done it?"

There's no good answer to the Squelcher. You can assure them nobody has ever done it the way you're gonna do it, or you can offer 10 reasons why the timing is right. But Gil Blutrigh, president of Skyline International Development Inc. in Toronto, says the best thing to do is ignore it. The past is past, and other people's motivations are unknowable. To a confident entrepreneur, there is only "we" and "now."

"We don't ask ourselves these questions," Blutrigh says. An Israeli real estate entrepreneur who moved to Canada in 1997, Blutrigh invested in a variety of Toronto-area commercial and residential properties while he developed his strategic vision. Today, he owns a choice collection of hotel and resort properties, both in downtown Toronto and its scenic hinterland, and he's now determined to develop the underperforming properties as "destination communities" to help them reach the full potential that evaded previous owners. Among Skyline's assets are:

? The Pantages and the Cosmopolitan, boutique downtown hotels with five-star Shizen spas;

? The historic King Edward Hotel, at which three floors of vacant offices are being renovated into 145 luxury condos that sold out last year in a few weeks.

? Horseshoe Resort, a low-rise ski hill near Barrie, Ont., which is being reinvented as a year-round, 1,500-unit condo resort with golf, horseback riding and a \$4-million adventure park;

? Port McNicoll, an 800-acre resort village on Georgian Bay an hour or so from Toronto. With 10 kilometres of shoreline, the entire area is being redeveloped as a \$1-billion leisure community of condos, cottages, hotels, shops and marinas.

? Deerhurst Resort, near Huntsville, Muskoka, two hours north of Toronto. The 430-room waterfront and golf resort is best known for launching Shania Twain's singing career and as the site of last year's G8 Summit.

Connecting these diverse properties is Blutrigh's

dream of creating a "better, more active life" for Ontario families. SkyLife club members can partake of adventures at Skyline's network of spa, golf, boating and hotel facilities. He models this group on ClubLink -the golfing network that connects members to courses all over the greater Toronto area. Except, as Blutrigh notes, golf tends to be about fathers slipping away from the family for a day, and only in summer, while SkyLife is about activities the whole family can enjoy, separately or together, year-round.

But can Blutrigh make these assets work? The King Edward has languished for decades in the reflected glory of John and Yoko and Liz and Dick (if you have to look them up, that's just the point); Horseshoe has been around for years as an undistinguished condo community; Port McNicoll has seen developers come and go; and Deerhurst has set course records for breaking investors' hearts. Before Skyline bought Deerhurst for \$26-million earlier this year, the previous owners paid \$21.2million in 1998 and then spent \$50million in upgrades.

Not to mention that the latest "world-class" resort development in Muskoka, the Red Leaves Rosseau hotel in Minett, went into receivership in May 2009, five months after it opened.

To Blutrigh, the answer is simple: if you buy low enough, you can make anything work. He brags that Port McNicoll, the King Eddy and Deerhurst were all bought for below replacement value. By looking for quick ways to earn much of its investment back, Skyline can afford to develop projects with style and integrity. For instance, soon after buying Port McNicoll for about \$8million, the company made a profit by selling off about 3% of its land (some of its best waterfront sites) for \$20-million. At the King Eddy, Blutrigh and his partners (who include Dundee Realty, the Serruya family of Yogen Früz fame, and billionaire Alex Shnaider), regained about \$20-million of their \$48-million cost by selling three floors of condos. As for Deerhurst, Skyline will start selling off 120 hotel units as one-bedroom condos, as well as 100 new golf course homes priced at \$350,000 and up this summer, allaying most of the purchase costs.

Clearly, the properties' previous owners left value on the table. Why did the King Eddy's previous owners close down the Crystal Ballroom, wall off ground-floor retail space, and let three floors of prime downtown real estate lie empty for 10 years? Why

did Deerhurst's owners never expand the back of the adjacent Hidden Valley ski hill to create a European-style ski-in, ski-out resort, as Skyline plans to do?

Blutrich doesn't question other people's inability to squeeze value out of their assets. He just does it his way. In part, he thinks that's because he is still new to Canada, with an outsider's keen sensitivity.

"There is such a disconnect between what we think about Ontario and what it really is," he says. "People who grew up here see only the details. I think we're living in one of the most beautiful places in the world."

While Blutrich has his hands full for a few years, he is quite sure many more bargains abound in Ontario for keen-eyed entrepreneurs. "You just have to be aware, and a little bit creative," he says. And never ask yourself, "Why did nobody think about this before?"

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The New York Times

Struggle Looms on Controlling Deficit Spending

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Byline: CARL HULSE; Binyamin Appelbaum contributed reporting.

Illustrations: PHOTO: Senator Bob Corker, Republican of Tennessee, is co-author of a proposal to cap spending at a percentage of economic output. (PHOTOGRAPH BY CHIP SOMODEVILLA/GETTY IMAGES)

WASHINGTON -- With Congress returning this week to confront an administration demand to raise the federal debt limit, Democrats and Republicans are in general agreement that the step should be accompanied by new controls on deficit spending but face a wrenching struggle over what those controls should be.

Some Democrats are exploring the possibility of budget "triggers," spending cuts that would kick in automatically if the government failed to reach agreed-upon deficit reduction targets over the long run. Republicans are demanding immediate spending reductions and stricter enforcement mechanisms, like a balanced budget amendment to the Constitution.

Some bipartisan talks are under way in the Senate, and Vice President Joseph R. Biden Jr. is to convene a negotiating session between White House officials and Congressional leaders on Thursday.

The Treasury Department will reach its legal borrowing limit of \$14.3 trillion in the next few weeks. It has said it can employ various cash-management measures for an additional two months to allow the government to keep paying its bills. But after that the United States would face the prospect of being unable to finance its operations or repay all its borrowings.

That would technically put the United States in default -- a development with the potential to agitate the financial markets and ripple through the economy in the form of higher interest rates. With that in mind, the Treasury Department is scheduled to announce its borrowing plans for the second half of 2011 on Monday, the day Congress convenes.

Republicans see the vote over raising the debt limit as leverage for immediate and concrete progress in their efforts to cut spending and reduce the size and reach of the government. President Obama has called for a no-strings-attached increase in the debt limit but has also proposed a budget plan that would include broad spending reductions if the federal debt as a percentage of the total economy is still rising in 2014.

Reflecting the political potency of the issue, some Democrats in Congress are now signaling that they would accept linking some kind of automatic trigger to a debt-limit increase.

"This is a seminal moment in our country's history," said Senator Bob Corker, Republican of Tennessee and co-author of a spending cap proposal that is drawing increasing interest from members of both parties in the House and the Senate. "I think we are

building up to a place over the next couple of months where we are going to do something."

Even top Democrats, who oppose Mr. Corker's plan and have previously pushed for an increase in the debt ceiling free of any Congressional restraints, say lawmakers must show the public that they are moving to put the government on a more stable financial footing.

"We're going to have to come up with something that makes sense," Senator Harry Reid of Nevada, the majority leader, told reporters after he met with White House officials last week. "My personal conviction is that we have to be able to prove that we're willing to do something about the debt, that we're willing to do something with the deficits."

House Republicans, saying they were leery of budget limits that could easily be circumvented, quickly came out against Mr. Reid's suggestion that deficit caps could be a legislative solution. But many Democrats are equally opposed to automatic spending restraints that they say could apply a meat-ax approach to the budget or deny the government sufficient financial flexibility in periods of conflict or economic hardship.

In coming weeks, the debt-limit fight is likely to become entangled in the consideration of broader plans to address the government's chronic budget deficits and the mounting debt.

A "Gang of Six" in the Senate, made up of three Democrats and three Republicans, is developing what is expected to be a far-reaching plan that mixes spending restraint with new revenues and that its members hope could become the basis for a deal that addresses the growing costs of the entitlement programs and the other underlying drivers of the nation's fiscal problems.

One Democratic member, Senator Kent Conrad of North Dakota, who leads the Budget Committee, said Sunday that the group was making "enormous progress."

"I hope that we are able to announce an agreement soon," he said on "Fox News Sunday." "If we don't, we're simply not going to be relevant, because this debate marches on."

In another effort to begin sorting out the possibilities, the Senate Finance Committee has scheduled a hearing for Wednesday to explore which budget thresholds would force spending or revenue changes to kick in automatically if the deficit reached a

certain level.

One of the scheduled witnesses is former Senator Phil Gramm, a Texas Republican and an author of the 1985 Gramm-Rudman-Hollings Law that was a notable effort to force spending cuts that Congress seemed politically unwilling to make on its own.

One proposal getting attention is a plan from Mr. Corker and Senator Claire McCaskill, Democrat of Missouri, to cap federal spending within a decade at about 20.6 percent of the nation's economic output.

Ms. McCaskill, who faces a difficult re-election race next year, said the multiple proposals suggested to her that Congress and the administration were finally getting serious about attacking the deficit. She said she would consider competing initiatives.

"This is a situation where the more, the merrier," Ms. McCaskill said in an interview.

The willingness of Congressional Democrats to examine such options reflects a recognition that lawmakers cannot credibly forge ahead with a vote on the debt limit without some accompanying antideficit steps to make the increase palatable to voters.

The experience in the 1980s with the Gramm-Rudman law, and later attempts to impose automatic budget controls through pay-as-you-go rules, also showed that Congress and the White House can and will find ways around them even if the proposals survive legal challenges.

Faced with the prospect of spending cuts or tax increases required under the Gramm-Rudman law, lawmakers sometimes looked to more optimistic economic projections to avoid the reductions or skirted the cuts with budget gimmicks. And Congress has often waived its pay-as-you-go rules when they got in the way of costly legislation like the 2009 stimulus spending.

Mr. Corker said that failure to come to an agreement this time would represent a "huge calamity" for the nation. While he said he thought spending caps were the most expedient solution, he said he was simply looking for an approach that could lead to a debt-limit increase and deficit controls.

"I am concerned about our country," he said, "and I am cheering for anyone who is trying to solve this."

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