

The Globe and Mail

Wounded U.S. economy getting back on its feet

Tue Jan 4 2011
Page: B1
Section: International News
Byline: Joanna Slater
Dateline: NEW YORK

NEW YORK -- The world's biggest economy is stirring again.

The latest sign: U.S. factories revved up their manufacturing activity at the fastest pace in seven months in December, according to a closely watched survey released Monday by the Institute for Supply Management.

Another encouraging piece of data came from the U.S. Commerce Department, which reported that construction spending notched a small increase in November, the third such monthly gain. Investors cheered, sending U.S. stocks to fresh two-year highs on the first trading day of the new year.

While a vigorous economic recovery isn't on the horizon, it seems increasingly likely that a respectable one is.

That means economic growth might actually accelerate over the course of 2011, unlike its herky-jerky pattern in 2010. It means the unemployment rate could fall in a noticeable way, even if it remains far too high for millions of out-of-work Americans. Most controversially, it means the wreck that is the U.S. housing market might show signs of repair.

The waning months of 2010 provided reasons to be hopeful. Americans are opening their wallets again, pushing retail sales back into territory last seen before the longest recession in 70 years. The number of people applying for unemployment benefits is dipping, indicating an improvement in the job market. And U.S. companies are doing a brisk business in exports, helped along by a weaker dollar.

Those dynamics are striking, since it wasn't so long ago that economists were preoccupied by the worry that U.S. growth would stall, sending the economy back into the recessionary ditch.

Now a number of forecasters see economic growth in 2011 outstripping 2010, in some cases by a considerable margin.

Macroeconomic Advisers, co-founded by former U.S. Federal Reserve Board governor Lawrence Meyer, predicts that gross domestic product will increase by more than 4 per cent in 2011 (a survey of economists by Bloomberg News indicated they expected 2010, at final tally, to register growth of 2.8 per cent).

The economy is starting to see the beginnings of a "virtuous cycle," says Nigel Gault, chief U.S. economist at IHS Global Insight. Consumers are

spending more, prompting businesses to hire workers and invest in equipment, which in turn spurs growth in incomes. IHS recently upgraded its prediction for 2011 to growth of 3.2 per cent from a prior forecast of 2.4 per cent.

Of course, there are still plenty of reasons for concern. A new debt crisis in Europe could rattle world markets. And the scars from the worst recession in over seven decades will take years to heal, especially for U.S. workers. Even if economic growth picks up, it will not translate into anything resembling full employment any time in the next few years, because job losses in the recession were so severe. Economists foresee the jobless rate falling only about a percentage point, from near 10 per cent currently to about 9 per cent by the end of 2011.

The overhang of debt from fighting the financial crisis and waging two wars overseas isn't going anywhere. The U.S. government is still spending well beyond its means. A compromise hammered out by U.S. President Barack Obama and congressional Republicans to extend tax cuts and unemployment benefits will goose the economy in 2011 but swell the deficit.

"They can't keep doing this forever, but we do have some extra stimulus coming our way," Mr. Gault notes.

Through an abundance of caution, U.S. corporations have amassed a massive stockpile of cash. At the end of September, non-financial firms held 7.4 per cent of their assets in cash, the highest percentage since 1959. If they feel confident enough to put their stash to work, it will shift growth into higher gear.

What about the battered housing market? Recent days delivered the dispiriting news that home prices are falling and could revisit the lows they hit last year. And there's still a huge backlog of troubled mortgages bedeviling the market.

But some point out that the housing sector is so deflated at this stage that a fair wind in the rest of the economy should help the market move in the right direction. Some indicators - the rate at which Americans form households of their own, the pace of new construction - are wallowing at lows not seen for decades.

"The only really good news is that builders don't have any inventory," says Mark Vitner, an economist at Wells Fargo Co. in North Carolina. "It wouldn't take much of a pickup in demand to generate new home construction."

Philadelphia Inquirer

PhillyDeals: Real estate investors tiptoe back in

Tue Jan 4 2011
Section: P-com Biz
Byline: By Joseph N. DiStefano

Office vacancies are still up, rents are still down, and that's how things will stay, until more employers start hiring.

Still, Wall Street has been increasingly successful at luring pension funds, insurers, and other big investors back into the kind of real estate deals that disappeared in the credit crisis of 2008 - and Philadelphia is getting a piece of the action.

The landmark Fidelity building at

123 S. Broad St., fictional home of the Duke & Duke brokerage from the Eddie Murphy movie Trading Places and real-life base for what's now Wells Fargo Bank and other business tenants, has been refinanced as part of the biggest U.S. office real estate bond deal to go through since the market for commercial mortgage-backed securities (CMBS) restarted last year.

Citi Global Realty and Goldman Sachs raised more than \$45 million to refinance the building, as part of an \$876.5 million CMBS deal that sold investments in dozens of U.S. properties to credit specialists and institutional investors.

The Fidelity piece went to landlord SSH Real Estate and its financial partner, Michael F. Young, who own the sixth through 30th floors of the white-stone, 1920s-era tower.

The partners' share of the building was appraised at more than \$70 million. Borrowing \$45 million at cheaper rates, the owners didn't have to put in any new cash.

SSH partner Jeffrey Seligsohn says his firm has boosted occupancy at the property to 86 percent, from 78 percent when it bought the space two years ago.

One of the New Yorkers who put the deal together told me investors who are returning to the office market are attracted to Philadelphia's stable - which is to say boring - real estate prices, as they scout for more deals here this year.

Profits on parole? Former Pennsylvania Gov. Mark Schweiker has joined the board of MinSec Holdings Inc., a for-profit Wallingford, Delaware County, firm, backed by Mike DiPiano's NewSpring Capital, of Radnor, and Baltimore-based Camden Partners, which operates minimum-security work-release and parole centers for the state that Schweiker used to run, among other governments.

MinSec facilities include the parole center at 1344 W. York St. in Philadelphia and a community residential

center at 201 E. 12th St. in Chester, which houses Pennsylvania and Delaware County work-release offenders.

Schweiker wasn't immediately available for comment. He is a former head of Philadelphia's Chamber of Commerce, and his current day job is running the Business Process Solutions unit for PRWT Inc., a government contractor that counts Pennsylvania's prisons among the clients for its janitorial service.

Greasy deal Quaker Chemical Co., of Conshohocken, says it is paying \$30 million for Summit Lubricants, of Batavia, N.Y., a 20-year-old firm that makes machine grease and other oils for the Army.

At its Upstate New York plants, Summit will manufacture Quaker's existing line of grease products that are currently outsourced, Liam D. Burke, analyst at Janney Capital Markets, told clients in a report Monday.

"They have the capacity to do that," confirmed Quaker CFO Mark Featherstone, bringing work once left to contractors back in-house.

"We see a fit with our mining business," which makes hydraulic fluid for oil-drilling equipment, Featherstone told me.

Quaker is buying out owners and former managers who controlled Summit. With its strong cash position swollen with orders from recovering automakers and steelmakers, Quaker is "constantly looking at operations" to buy, Featherstone told me.

Andy Greenberg, chief executive at the Conshohocken-based deal-tracker GF Data Resources, told me the Summit price was about 10 percent higher than the average for similarly sized chemical companies in recent years. That implies either that Summit is growing faster than its markets or "that the real upside is the expansion Quaker expects to realize as a result of acquiring a foothold in the specialty grease market," Greenberg said.

Contact columnist Joseph N. DiStefano at 215-854-5194 or JoeD@phillynews.com.

The Globe and Mail

Downtown lights burned bright in 2010; Driven by demand in Toronto and Calgary, Canada's robust office market surprised the experts in 2010. Slow but steady improvement is now being predicted for 2011

Tue Jan 4 2011
Page: B8
Section: Report on Business: Canadian
Byline: Chris Atchison
Source: Special to The Globe and Mail

Despite predictions to the contrary, 2010 was not the year the Canadian office market collapsed under the weight of the recession.

In fact, 2010 will likely be remembered as a pleasant surprise. Few analysts anticipated the relatively strong - in some cases remarkably robust - performance in this economically sensitive sector, and many had to revise or completely reverse their predictions.

Driven by huge demand for office space in major centres such as Toronto and Calgary, downtown office vacancy rates, nationwide, declined from 8.5 per cent in the fourth quarter of 2009 to 8 per cent in the same quarter this year, according to data compiled by commercial real estate consultants CB Richard Ellis Canada.

In that same period, the percentage of vacant space on sublease nationwide - a telling sign of overall economic confidence across the business sector - declined significantly, from 27.4 per cent to 19.9 per cent.

"The two markets people had pegged for trouble were downtown Toronto and Calgary, not so much for lack of demand but due to the large amounts of supply coming on in both markets," says John O'Bryan, the Toronto-based vice-chairman of CBRE Canada. "Fortunately through all of 2010, what you saw was very healthy demand in both of those markets."

Toronto experienced what Mr. O'Bryan calls "the year of the bank." The financial services sector and its myriad support industries back-filled existing space and gobbled a lot of the approximately 3.2 million square feet of space in new office towers, which came on stream in the city's downtown core. All of these are approximately 90 per cent leased.

A similar story played out in Calgary, where year-over-year fourth-quarter vacancy rates dropped from 15.5 per cent to 13 per cent, despite several new office complexes, such as 8th Avenue Place, flooding the market.

What hasn't fully recovered are downtown class-A net rental rates, which are hovering around \$23.93 per square foot, according to CBRE, down from about \$24.26 in 2009.

Rents may not have fully rebounded but demand for space in downtown cores did, as central business districts lured tenants away from suburban office

complexes. CBRE data shows that suburban office vacancy rates hovered at around 11.2 per cent in late 2010 nationwide, more than three points higher than downtown vacancies.

In other recessions, including the tech meltdown in 2000 and the recession in the early 1990s, which devastated the Toronto market in particular, suburban markets were always quite resilient," says Paul Morse, senior managing director at Cushman & Wakefield (which, in 2009, predicted office real estate vacancy rates to increase in 2010).

"But this is the first time we've seen the central business districts outperform the suburbs, largely because of the financial services sector."

But, as Mr. Morse explains, there is more to this shift in demand than merely the strength of one industry. Virtually any company that relies on attracting talented, well-educated workers either has, or is considering, setting up shop where those people are increasingly clustering - the dynamic downtowns of cities such as Toronto, Montreal, Vancouver and Calgary.

He adds that office buildings on or near transit lines have also thrived, as more environmentally conscious, commute-detesting professionals move into swank new condos springing up in Canada's largest cities and ditch their cars.

So, what will be the big stories in the Canadian office market in 2011? Industry experts offer their predictions:

John Arnoldi, Toronto-based managing director at Colliers

International: "We're going to see an easing of inducements - less free rent, fewer cash or tenant improvement allowances. We will see rents starting to steadily creep up a bit as vacancy rates go down. Barring some unforeseen circumstance, I think we're going to have a continuously improving market (in the GTA) and a slow and steady pace across Canada, as well. Markets like Halifax and Ottawa never really change. Likewise, Victoria has a heavy government presence so the office space doesn't shift too much. But then places like Calgary will continue to absorb more space in the office market."

Paul Morse, senior managing

director at Cushman & Wakefield: "I think we're

going to see more new office development across the country. I think another [major new office tower] will be announced in Toronto and Vancouver. There's talk of another new building in Montreal. There will be growth in the financial services sector, but not at the same pace as what we saw in 2010. Having said that, we are seeing growth in the technology and software development sectors, and among professional services firms. I think Canada has established itself as a pretty predictable, steady office sector and I think that trend will carry into 2011."

Colin Ross, senior vice-

president, office leasing, DTZ Barnicke: "In centres like Toronto, the push is now on the fringes of the downtown. There are a lot of new developments being planned and a lot of them will be LEED buildings. A lot of companies are also looking for branding opportunities. The new Corus Quay building on Toronto's waterfront is a good example. [The trend] is to make it a green building and build it slightly off-core for pricing. They're also funky, active areas for their employees. People want to be close to where they live in the condos, close to entertainment and close to transportation."

John O'Bryan, vice-chairman,

CB Richard Ellis Canada: "One of the big stories is that some of the smaller markets such as Kitchener-Waterloo, Ont., which has vacancy rates under 3 per cent at the moment, will continue to outperform some of their larger counterparts. Then you've got places like Regina, Saskatoon and Winnipeg all doing exceptionally well because the macro-economies they're situated in have done very well. "You're going to see a slow but inexorable reduction in vacancy rates [in Canada], and we'll fare way better than the U.S."

© 2011 CTVglobemedia Publishing Inc. All Rights Reserved.

Calgary Herald

Calgary office market rises above global malaise; Some experts expected 20% vacancy rate

Tue Jan 4 2011

Page: E1

Section: Calgary Business

Byline: Mario Toneguzzi

Source: Calgary Herald

Illustrations: Colour Photo: Ted Jacob, Calgary Herald / Gary Bugeaud of Burnet, Duckworth & Palmer LLP is excited about an upcoming move to Eighth Avenue Place.;

It wasn't long ago that some industry experts were predicting challenging times for Calgary's downtown commercial real estate market.

With two mega projects -- The Bow tower and Eighth Avenue Place -- still under construction, but set to deliver nearly three million square feet of office space by 2012, some reports were forecasting the vacancy rate would soar to the 18 to 20 per cent range.

That's what a recession will do to a city's economy.

In the good years not long ago when Calgary's economy was firing on all cylinders, the downtown vacancy rate dipped to a minuscule 0.6 per cent.

But a surprising thing happened this past year -- companies were taking up space at a record amount.

Gary Bugeaud, managing partner of Burnet, Duckworth & Palmer LLP, said his firm will be moving into Eighth Avenue Place in August and taking up 4 ½ floors, or 130,000 square feet.

"We are increasing space and entering a long-term lease. Our lease was coming to expiry so we evaluated the marketplace and looked at our options between staying and the new towers having gone up," he said. "We're happy and excited about the new building."

The law firm is currently in the Bank of Montreal building in about 110,000 square feet.

"The (new) building is in a great location to get in and out of downtown. For the livability for our employees we think that is going to be great -- and right on the outskirts of downtown. So you can easily get in and out and yet it's connected in the Plus-15 to everything," he said.

"We spent about a year-and-a-half evaluating the marketplace. We started evaluating just when we were in the depths of the recession. There was a lot of watching the marketplace before committing."

A commercial real estate market report released in December by CITI Commercial Real Estate Services Inc. said that with The Bow building added to the inventory, the absorption of office space will reach a record of 2.6 million square feet in the downtown office market in 2010. In 2009, absorption, which is the change in occupied space, was negative 1.8 million square feet.

Energy companies Encana and Cenovus will occupy the 1.7 million square feet in The Bow.

Cenovus is expected to start occupying the building in late 2011, while Encana is expected to start moving in in the first quarter of 2012.

Eighth Avenue Place, with its one million square feet of office space, has already had tenants moving into the building.

According to the CITI report, authored by Michael Gigliuk, the company's associate and senior negotiator, Calgary's downtown office vacancy rate dipped to a low of 0.6 per cent in 2006 and climbed to 15.7 per cent last year.

Many industry experts were predicting the downtown vacancy rate could climb to the 18 to 20 per cent range with the completion of the two massive office projects, but Gigliuk is forecasting vacancy at about 12 per cent in 2012 when both structures are completed. In the latest downtown building boom, seven million square feet of office space will have been added.

Jim Rea, vice-president and partner of Colliers International in Calgary, said Eighth Avenue Place is 75 per cent leased.

"We've got deals pending and negotiations underway that could take that building well over that," Rea said. "The interest level has remained high. We've been successful in getting the building leased from the bottom up."

A year ago nothing was official on the building that began construction with no pre-leased property.

"It's high quality space. It's landmark architecture. Its location is very good. You've got easy access to and from the site because of 9th Avenue. You're a block or so from the LRT. You're Plus-15 connected into all of the other major complexes. You've got that nicely renovated upgraded retail centre right across the north side of 8th Avenue and lots of parking. The building itself fits the niche of tenants today who are seeking large floors," said Rea.

"You don't just build office buildings every day of the week. And I think the market has realized that Eighth Avenue Place is the last new building to come into the market and will be the last one. The

Bow is still under construction but that's just for Encana and Cenovus. There won't be space in that building. So it's fairly evident that the market won't be building another building here for the next few years."

Bruce Graham, president and chief executive of Calgary Economic Development, said several factors contributed this year to leasing activity in the downtown office market. First and foremost, there has been space available.

"Overall, there's an increased sense of optimism. We have a commodity-driven economy . . . and companies are preparing for the future and knowing from the past that they need to be able to accommodate growth and have space for people who are going to help them execute those capital projects," he said.

The city has not seen a big increase in employment yet, but there have been some incremental improvements, added Graham.

"By and large, we're still at the front edge of the activity that's coming forward."

Many economic reports are painting a positive outlook for Alberta's economy particularly in the next two years. Economic growth is expected to either lead the nation or be among the leaders, which will trigger employment growth and in-migration growth in Calgary.

"I think the word is getting out that Western Canada, and particularly Calgary, is set to lead the country in growth and this country is likely to lead most of the G8 countries in growth. So we're stepping back into familiar territory for Calgary," added Graham.

mtoneguzzi@calgaryherald.com

The Globe and Mail

Bear v Bull; Last year was bumpy for the Canadian economy. What's in store for 2011? Most economists see slow growth - averaging about 2.4 per cent for the year. But opinions are split on how it will play out, from how the loonie will fare to how fast interest rates will rise. Here, a bull and a bear duke it out:

Tue Jan 4 2011
Page: B16
Section: Report on Business: Canadian
Byline: Tavia Grant

THE PESSIMIST AVERY SHENFELD, CHIEF ECONOMIST, CIBC WORLD MARKETS INC.

You see the economy growing about 2.2 per cent this year. What will drive this growth - and what will hold it back?

Canada isn't operating in an ideal world. As an exporting nation, we do better when global growth is red hot, and when the Canadian dollar is in a position that makes "Made in Canada" cost competitive - and, at this point, we don't have either of those factors working for us.

We are getting some strength from business capital spending, so a strong Canadian dollar and competitive tax rates [are] helping induce a recovery in business investment spending and we expect that to continue. We have reasonable growth in personal consumption spending as well.

Where do you see the currency through this year?

We will likely spend most of this year between parity and 5 cents weaker than parity with the U.S. dollar, which by historical standards is still quite a strong level.

Our jobless rate is now 7.6 per cent. How will the labour market fare in 2011?

We see the unemployment rate edging higher, then easing back to 7.7 per cent by the end of 2011.

The Bank of Canada has held the line on interest rates since September. By what magnitude will rates move this year?

Until the Federal Reserve is hiking rates, it's going to be hard for the [Bank of Canada] to take our overnight rate above 2 per cent without sending the Canadian dollar to levels that cause even more of a challenge to our exporters. By the end of 2011, we have it at 1.75 per cent [up from 1 per cent today]. So, only a few hikes.

Inflation remained fairly tame last year, though prices for some foods and services do appear to be creeping higher. What's your outlook for inflation?

I don't see much momentum in inflation. We expect oil prices to come down a bit, which will help cool

fuel costs. So both the headline and core inflation rate will average just under 2 per cent for 2011. The global pricing environment is fairly soft, so the prices for what Canada imports should be held reasonably cheap, other than food. And domestically, wages aren't escalating that rapidly.

Consumers remain heavily indebted. What's in store for consumers in the coming year?

We have consumer spending growing slightly less in 2011 than in 2010. Part of that is the impact of interest rate hikes, and a slightly less buoyant housing market. One way or another, either consumers will slow the pace of debt accumulation on their own, or policies will be taken to slow it. And that will translate into bringing spending closer in line with income growth.

Commodity prices soared in the second half of last year. Record gold prices have sparked chatter of the yellow metal as a reserve currency. How do you think oil, gold and metals will fare this year?

You should ask a psychologist about gold before you ask an economist. Because it's not a commodity that's well tied to fundamentals of economic growth as oil or metals. Gold isn't used; it sits there in bars and its value is in the eye of the beholder. I can still see gold moving higher, if only because it's a momentum trade and investors are piling into it.

We expect oil to settle at somewhat lower prices in 2011 than we're seeing late in 2010. There's still long-term upside in that commodity price, likely only to be realized when the world's economy is running at full steam. Inventories still look quite plentiful.

In the case of metals, China is going to be taking steps to ease growth to contain inflation, and so we have copper prices averaging below where they are now.

In the global economy, where will the strongest and weakest pockets of growth be?

In both direction and absolute growth, the fastest pace will be in emerging markets, but there will be some decelerating, largely because of steps to contain inflation. The U.S. looks to be picking up a bit. Europe is ending on a healthy note, but will slow due to fiscal tightening.

THE OPTIMIST / SHERYL KING, HEAD OF
CANADIAN ECONOMICS, MERRILL LYNCH

You see the economy growing about 3.1 per cent this year. What will drive this growth - and what will hold it back?

The main factor generating growth is going to be capital spending. This year, businesses, particularly non-financial businesses, are in a particularly good spot to be able to spend. They have a lot of cash on the balance sheet and very low levels of debt. They have been underachieving for a number of years, and if they want to achieve those productivity gains to become more competitive, with the Canadian dollar near parity, this is a good opportunity.

The government sector will throttle back. Fiscal stimulus will be more of a net drag in 2011, though private sector activity will more than offset it. ... The housing sector will actually be a drag on economic activity.

Where do you see the currency this year?

My gut tells me we'll have a higher currency this year.

Our jobless rate is now 7.6 per cent. How will the labour

market fare in 2011?

I definitely think the rate will move lower and if anything will punch below 7 per cent.

The Bank of Canada has held the line on interest rates since September. By what magnitude will rates move this year?

Given the fact that the consumer continues to buy and they target consumer price inflation, we're going to have some upward pressure and the breach of the 2-per-cent [inflation] target this year. Agricultural prices in Canada are up 24 per cent on a year-to-year basis and core CPI [consumer price index] is 20-per-cent food. I think March will be the first hike for the bank. That will be the first in a series of hikes that will bring the overnight rate to 2.5 per cent at end of 2011.

Inflation remained fairly tame this year, though prices for some foods and services do appear to be creeping higher. What's your outlook for inflation?

It's not just coming from agricultural prices. We do have labour costs on the rise, we have regulated prices on the rise - from tuition fees to property taxes and public transit. Even headline inflation will come back, with energy prices on the rise as well.

Consumers remain heavily indebted. What's in store for consumers in the coming year?

It's something that remains a concern, and you have to ask why - it's because interest rates are so low, it's very easy to take on debt. Our sense is a lot of the leveraging up is coming from home equity lines of credit. And there, the Bank of Canada, to convince consumers that this shouldn't be a source of financing, could just raise rates.

Commodity prices soared in the second half of last year. Record gold prices have sparked chatter of the yellow metal as a reserve currency. How do you think oil, gold and metals will fare this year?

In this world of risk aversion and concerns about the U.S. currency, gold is where you want to be, regardless of whether you think the global economy will go back into recession ... As long as we have these expectations of where the global economy's going to go, there's a lot of upside for gold. Our analyst is thinking we'll get a spike to up to as much as \$100 [U.S.] a barrel [for oil] at some point. Base metals will benefit from the fact that global growth remains strong. We see commodities up about 8 per cent.

In the global economy, where will the strongest and weakest pockets of growth be?

Europe will continue to struggle. We're still fairly optimistic about the core European economies - Germany and France, Germany especially. But that's not going to be a growth leader. In the U.S., there is going to be an acceleration in growth through the course of 2011. Developed markets, like Canada, will hold steady, while emerging Asia will slow, but from an accelerated pace.

Comments have been condensed and edited.

© 2011 CTVglobemedia Publishing Inc. All Rights Reserved.