

Philadelphia Inquirer

Mirror, Mirror: Fashion retailers open own downtown stores

Wed Mar 31 2010
Section: Inq Daily Magazine
Byline: By Elizabeth Wellington

Sure, Brooklyn Industries has cutting-edge fashions. It features miniskirts with detachable suspenders, color-blocked dresses, and checked shirtwaist frocks - all of them designed, manufactured and sold by its owner, Lexy Funk.

But the store that opened on Walnut Street in February also is on the edge of another fashion trend: All-in-one retailers once destined for malls are now returning to the urban storefront - in some cases, replacing the boutiques known for showcasing a smattering of outside designers.

Diesel and North Face, both of which design and manufacture all of their clothes, are the latest of these kinds of fashion tenants to set up shop on the upscale Rittenhouse Row.

"That's the direction fashion retail is going, especially on Walnut Street," said Laurence Steinberg, principal at commercial real estate firm Michael Salove Co.

"Companies have to manufacture their own merchandise to pay these \$100-plus- square-foot rents," said Steinberg, who also hinted that a menswear and womenswear store, both mall staples, are currently negotiating for a Walnut Street address. "You can't be a reseller in this economy and effectively compete."

Funk had her eye on a Walnut Street spot for the last two years. So when the rents recently fell, she seized the opportunity.

The art and art history major at Wesleyan College supported herself as a commercial photographer for several years before she married her husband, Vahap Avsar. She then took a full-time job at an ad agency, but in 1998 the two started Brooklyn Industries selling canvas messenger bags and T-shirts.

"My husband and I are both artists and we got in this as a way to solve the problem of how to make a living being artistic," Funk said one recent Thursday afternoon as we toured the Philadelphia store.

"Our goal has always been to live, work, and create. In that order. . . . We want to take things that are already out there and make them better."

Their formula seems to be working. Today Brooklyn Industries is a full men's and women's apparel line. Sales in 2009 were more than \$13 million, and the company has 13 stores in four cities including Portland, Ore., and Chicago. Brooklyn Industries will open its 15th store next month in Boston in another artsy warehouse space.

Inside, there are cardigans in bold reds and greens

that have removable brooches. Contrasting buttons dazzle on striped dresses. Sweatshirts feature exposed zippers. Men's crisp button-up shirts are dotted with images of pigeons and rats. (Seems kind of weird, but it's actually cool.)

Funk's design aesthetic not only is apparent in her clothing, it's a central part of Brooklyn Industries' overall look. Her streetscape photographs are in prominent places throughout the Philadelphia store, and Funk is the photographer for all of the company's images.

She's not the only artist using fashion for her canvas here.

Take another Brooklyn-named company, Brooklyn Royalty. Creative director Bob Bland moved to West Philadelphia last summer, and, similar to Funk, she is selling a men's and women's line of clothing embossed with urban-inspired graphic art.

This month, art enthusiast Christos Karabelas, 23, launched Company Policy Apparel, a collaborative effort of about half a dozen Philadelphia-based artists who make screen-printed T-shirts and organic hoodies.

Funk wants to highlight artists by turning part of the Walnut Street space, probably the top floor, into a hub for local artists to show their work. At the same time, the company is asking Philadelphians to submit their art, everything from graphic designs to sculptures, to www.brooklynindustries.com/lwc/.

"Everything about our store revolves around art," Funk said. "We are inspired by artists, philosophers, movies. Everything that is art."

Brooklyn Industries is located at 1525 Walnut St., 267-273-1081.

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Chicago Sun-Times

New kid on the lake?; Rezoning could mean birth of massive Southeast Side community

Wed Mar 31 2010

Page: 18 / FRONT

Section: Financial

Byline: David Roeder

Source: Special to The Chicago Sun-Times

Illustrations: Photo: Brian Jackson, Sun-Times / A wall and fence around the old U.S. Steel South Works plant, ...

Photo: Brian Jackson, Sun-Times / ...where city officials and developers envision 13,500 homes and 800,000 square feet of retail on coveted lakefront property on the Southeast Side.

Map: (See microfilm for map).

Get used to a new Chicago lakefront community, vast in its ambition. It is decades from realization, but everything has to start somewhere, and in legal terms, this one's birth could be April 15.

That's when the Chicago Plan Commission tentatively is scheduled to consider zoning for about 400 acres next to Lake Michigan from 79th to 87th streets. It's the old site of the U.S. Steel South Works plant, which employed 20,000 in its heyday but closed in 1992. U.S. Steel took down the buildings, left behind the slag from steel production, and entered a venture with McCaffery Interests Inc. to develop the site. It is the closest thing to "greenfield" property that you'll find in the city limits. The slag, while not toxic, gave it the character of a moonscape. Part of the property has gotten topsoil in recent years from sludge dredged from Lake Peoria and brought up by barge. It's now sprouting vegetation.

The developers and city officials have reached substantial agreement on plans that would allow for 13,500 homes in a variety of configurations, plus around 800,000 square feet for retail. It's a broad outline for something that might be 40 years in the making. Daniel McCaffery, president of McCaffery Interests, knows that while he's getting things started, he's not likely to be around at the end. "It's a plan in place to attract those who want to change it," he said.

It calls for about 100 acres to be donated to the city as open space. Land would be set aside for a community center and a high school.

The Plan Commission also will be asked to endorse the first phase of the project, covering about 70 acres at the parcel's northwest corner at 79th and Brandon. Nasutsa Mabwa, project manager at McCaffery Interests, said the first phase would be anchored by stores and probably a "big box" retailer. She said it also would include 136 townhomes intended to be rented at what the city defines as "affordable" rates for families with no more than 50 percent of the area's median income.

After City Council action, the zoning could be final by June. Mabwa said her company could then proceed with marketing. Construction on the first phase could be a couple of years away, depending on the pace of investment.

The property adjoins the South Chicago

neighborhood, which has many difficulties. But it's close to four Metra stations, is just 10 miles from downtown, and South Shore Drive will be rerouted into its midst. And it boasts that talisman of Chicago property owners: the open lakefront.

Not part of the plan is a 118-acre piece south of 87th Street where Solo Cup Co. once was slated to build a plant. It canceled the project and put the land up for sale.

So far, nobody's talking high-rises on the McCaffery portion much beyond 20 stories. But that could change with density and demand. If McCaffery succeeds, the site's evolution will be a worry for Chicago circa 2050.

NO PLACE LIKE HOME: More corporations, after looking around for new offices downtown, are staying put to save money.

"It's all about the cash concerns of corporate America," said Matt Carolan, executive vice president at Jones Lang LaSalle. "When it comes to office leasing, they are taking the path of least resistance," he said, which means renewing current leases, often years before they expire to take advantage of a pro-tenant market. An example is investment bank UBS AG renewing for 389,000 square feet in its namesake building at 1 N. Wacker.

Jones Lang's data show that at the close of the first quarter, downtown office space had a 13.9 percent vacancy rate, the highest in the company's records in five years. The rate compares with 13.4 percent at the end of 2009 and 11.6 percent one year ago.

Carolan, who represents tenants in negotiating with landlords, said he expects vacancies will continue to rise for 12 to 18 months before corporate hiring kicks in, forcing companies to add to space. But for now, he said, managers are seeing improved returns from a reduced work force, so hiring decisions will come slowly.

In time, however, the lack of new office construction will further limit options for big users. Jones Lang said companies such as Citadel Investment Group and PricewaterhouseCoopers are testing the market for 2013, but few buildings can offer the space they need.

The suburban market also remains weak, with Jones Lang measuring the vacancy at 21.8 percent, a level not seen since the 1991 hangover from the late-1980s construction party. The company said suburban vacancy was 21.1 percent at the close of 2009 and 19.6 percent a year ago.

Some landlords face debt deadlines over the next couple of years, but Carolan doubts many buildings will go back to their lenders. "Banks still prefer to extend loan maturity dates and hope the world rights itself," he said.

David Roeder reports on real estate at 6:22 p.m. every Thursday on Newsradio 780 WBBM. The reports are repeated at 10:22 p.m. Thursday and 7:22 a.m. Sunday.

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The Canadian Press

Dubai names board to oversee indebted Dubai World property unit Nakheel's restructuring

Tue Mar 30 2010
Section: Business
Byline: BY TAREK EL-TABLAUWY

CAIRO, Egypt _ A council overseeing the restructuring of Dubai's chief conglomerate said Tuesday a new board had been named to oversee the restructuring of the deeply indebted Dubai World property development unit Nakheel.

The announcement marked the latest effort by Dubai to steer its chief engine for growth through a minefield of debt that has sullied the one-time Arab boomtown's reputation as the Mideast's premier investment destination.

It comes just days after Dubai said it would pump \$9.5 billion into Dubai World to help restructure the company's \$26 billion in debts. Much of the money allotted under the restructuring plan was earmarked for Nakheel, the company behind Dubai's iconic manmade islands _ many of which sit empty due to the property bust linked to the global economic meltdown.

Dubai World Chairman Sultan Ahmed Bin Sulayem welcomed the new Nakheel board Tuesday and said in a brief statement its members will have the conglomerate's "full support."

An earlier statement from the Dubai ruler's media office said the new board "will work on implementing the main remaining projects, which will be specified in accordance with the company's priorities over the coming period in a manner guaranteeing its various responsibilities to the different parties."

The broader restructuring plan offers creditors full repayment on the principal of their outstanding loans over a five to eight year period through the issuance of new debt. The plan calls for restructuring of \$23.5 billion of the debts, which include \$14.2 billion to creditors other than the government.

Nakheel's woes, like those of its parent company and Dubai, as a whole, were linked in large part to the global financial crisis.

The emirate _ one of seven semiautonomous city-states making up the United Arab Emirates _ relied on years of cheap credit to fuel its stratospheric growth. But the financial crisis dried up the easy money and pummelled property prices in Dubai by as much as 50 per cent. Nakheel took a hammering partly because it contributed to the property glut that stemmed from the building boom.

When the bills came due, Dubai World announced in November it wanted a six month delay in repaying the money and creditors discovered that the loans which they assumed were backed by the city-state's

government in fact had no such guarantees.

Of the total money to be injected into the ailing conglomerate under the restructuring plan, \$8 billion in new funds was set aside for Nakheel, a company viewed as a linchpin in Dubai's transformation from a small, desolate trading port in the Persian Gulf to a glimmering oasis with towering skyscrapers and aspirations to become the Mideast's version of Singapore, Wall Street and Las Vegas, rolled into one.

Key in Nakheel's portion of the restructuring plan was that the company's outstanding Islamic bonds would be paid on maturity this year and the next. The developer, in what was seen as a litmus test of Dubai World's overall situation, paid roughly \$4 billion on a maturing Islamic bond in December.

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MARKETWIRE

Artis Announces \$75.0 Million Convertible Debenture Financing, Closes Previously Announced \$85.2 Million Acquisition and Announces \$58.3 Million in New Property Acquisitions

Wed Mar 31 2010, 7:41am ET
Dateline: WINNIPEG, MANITOBA

WINNIPEG, MANITOBA--(Marketwire - March 31, 2010) -

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Artis Real Estate Investment Trust (TSX:AX.UN) ("Artis" or the "REIT") announced today that it has completed the previously announced acquisition of a four-building 811,074 square foot Industrial Portfolio in Edmonton, Alberta, and as well has entered into unconditional agreements to acquire an additional \$58.3 million of retail properties in Alberta and British Columbia.

In conjunction with these announcements, Artis announced it has entered into an agreement to sell to a syndicate of underwriters led by CIBC World Markets Inc. and Canaccord Adams (the "Underwriters"), on a bought deal basis, \$75.0 million of 10-year convertible debentures bearing interest at a rate of 6.00% per annum. Artis intends to use the net proceeds from the Financing to fund future acquisitions, for repayment of existing mortgage debt and for general working capital purposes. The Financing is expected to close on or about April 22, 2010 and is subject to regulatory approval.

The Alberta Industrial Portfolio includes one 399,767 square foot property in Edmonton, one 146,135 square foot building in Calgary, and two properties in Acheson totaling 265,172 square feet. The Acheson industrial area is located just ten minutes outside of west Edmonton, Alberta along the Yellowhead (TransCanada) Highway. The buildings, which were all constructed between 2003 and 2008, are currently 100% leased. Key tenants include Suncor, Navistar Canada and Kuehne & Nagel. Management estimates that the current rental rates are approximately 12% below market. The Industrial Portfolio is being acquired for \$85.2 million which represents a going-in capitalization rate of 7.7%. The purchase price was settled from cash on hand and from the proceeds of \$53.2 million of new 5-year mortgage financing bearing interest at a rate of 4.82% per annum.

Artis has also entered into an unconditional agreement to acquire a 50% interest in Westbank Hub North, a 249,724 square foot newly developed unenclosed retail shopping centre in West Kelowna, British Columbia. Westbank Hub North is anchored by a 172,000 square foot Wal-Mart store; other top tenants include London Drugs, Reitmans, CIBC and HSBC. The centre is 99.7% occupied, with an

excellent 4.9:1000 square foot parking ratio. The property is situated on a 22.98 acre site with the potential to develop an additional 15,000 square feet of retail space. The 50% interest in Westbank Hub North will be acquired for price of \$24.3 million. The purchase price represents a going-in cap rate of 7.0% and is expected to be satisfied from cash on hand and from the assumption of \$16.7 million of existing mortgage financing bearing interest at a rate of 5.54% per annum. Management of Artis expects that the closing will occur on or about March 31, 2010.

Artis has entered into an unconditional agreement to acquire Sunrise Towne Square, a 96.8% occupied 111,978 square foot unenclosed retail property located in Spruce Grove, Alberta. Sunrise Towne Square is anchored by a 52,074 square foot Rona store on a long-term lease expiring in 2026, with regular rent escalations every five years. The centre is shadow-anchored by Wal-Mart and is in close proximity to an existing retail power node with planned expansion. The City of Spruce Grove is only 11 kilometers west of Edmonton, and is considered part of the Edmonton Metropolitan Region. Spruce Grove benefits from its location along the Yellowhead Highway and Highway 16A, a major commercial corridor for the region. Sunrise Towne Square will be acquired for \$22.7 million, which represents a going-in cap rate of 7.2%. The purchase price is expected to be satisfied from cash on hand and from the proceeds of new \$14.8 million mortgage financing bearing interest at a rate of 4.661% per annum. Management of Artis expects that the closing will occur on or about April 1, 2010.

Artis has entered into an unconditional agreement to acquire Visions Electronics Building, a 50,045 square foot retail property located on a 2.97 acre site in northeast Calgary, Alberta, with exposure along the busy 32nd Avenue NE commercial corridor. The property is 100% occupied by Ashley Furniture and Visions Electronics, both on long-term leases with escalations, expiring in 2019 and 2020, respectively. The Visions Electronics Building will be acquired for \$11.3 million, which represents a going-in capitalization rate of 7.4%. The purchase price is expected to be satisfied from cash on hand and from the proceeds of new \$7.3 million mortgage financing bearing interest at a rate anticipated to be less than 4.8% per annum (based on current government of Canada bond yields). Management of Artis expects that the closing will occur on or about April 12, 2010.

"Thus far in 2010, Artis has closed on \$134.0 million of income producing properties in western Canada, and announced a further \$91.8 million of unconditional acquisitions which we expect will

close before April 30, 2010," said Armin Martens, CEO of Artis REIT. "In addition to the \$24.3 million 360 Main and Parkade transaction, Artis is in various stages of negotiation and due diligence on additional deal flow. The proceeds from the Series F debenture offering will provide us with the flexibility to pursue these accretive deals or retire existing balance sheet debt."

INDUSTRY: FSCI, FSIS, RERR

SUBJECT: FNC

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Management estimates that the pro-forma ratio of total debt to gross book value after issuance of the \$75.0 million Series F convertible debentures will be approximately 55%. This estimate includes the impact of all acquisitions completed since December 31, 2009, in the gross book value, as well as the estimated impact of the unconditional and conditional agreements to acquire properties announced to date.

Including the impact of all concluded and announced unconditional acquisitions, Artis' portfolio (by GLA) will be 12.0% in British Columbia, 50.0% in Alberta, 7.4% in Saskatchewan and 30.6% in Manitoba. The REIT's 8.6 million square feet of leasable area will be 42.0% industrial, 30.5% retail and 27.5% office.

Artis is a growth oriented real estate investment trust focused exclusively on commercial properties located in primary and growing secondary markets in western Canada. The REIT's goal is to provide unitholders the opportunity to invest in high quality western Canadian office, retail and industrial properties, as well as to provide monthly cash distributions that are stable, tax efficient, and growing over time.

The REIT's Distribution Reinvestment Plan ("DRIP") allows unitholders to have their monthly cash distributions used to purchase trust units without incurring commission or brokerage fees, and receive bonus units equal to 4% of their monthly cash distributions. More information can be obtained at www.artisreit.com.

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The Toronto Stock Exchange does not accept responsibility for the adequacy or accuracy of this press release.

The Globe And Mail

Ontario gets fresh boost as Honda recalls workers

Wed Mar 31 2010

Page: B1

Section: Report On Business: Canadian

Byline: Greg Keenan

AUTO INDUSTRY REPORTER

The auto industry is starting to recapture its status as the strongman of the Ontario economy, but it's not as muscular as it was.

In the second positive jolt for Ontario's battered auto and manufacturing sector in less than a week, Honda of Canada Mfg. said it will restore 400 jobs at one of its assembly plants in Alliston, Ont., and boost production there to 600 vehicles a day from the current 400.

The good news is that the Honda move, combined with the recall of 700 workers at a General Motors of Canada Ltd. plant in Oshawa, Ont., announced last Friday, and the start of a second shift of workers two weeks ago at Toyota Motor Manufacturing Canada Inc. plant in Woodstock, Ont., will put about 2,000 people back to work in the auto sector.

The bad news, however, is that about 38,000 jobs in vehicle assembly and parts manufacturing disappeared between the end of 2007 and December, 2009, when the auto industry experienced the worst crisis it has faced since the Great Depression of the 1930s.

That means there are still 36,000 positions left to replace in an industry that is not expected to see vehicle sales recover to pre-crisis levels until at least the middle of the decade.

"You have to be positive, but you also can't lose sight of just how much more work is in front of us," said industry analyst Dennis DesRosiers, president of DesRosiers Automotive Consultants Inc., of Richmond Hill, Ont.

Mr. DesRosiers noted that after every decline since the end of the Second World War, the auto industry has bounced back, in some cases from declines of 25 per cent or more.

"There were many times where we were free-falling, but we always came back bigger and better," he said. "This time is different."

Douglas Porter, deputy chief economist at Bank of Montreal, said a cyclical rebound in auto sales and production will mask the structural shifts that have reshaped the industry.

"The bigger story is that we are ultimately going to end up with a smaller industry than [when] we went into this so-called Great Recession," Mr. Porter said.

Honda is adding the jobs at its plant No. 2 in Alliston,

which makes Civic compact cars and Acura MDX and ZDX luxury crossover utilities. It provides about 52 per cent of the vehicles Honda sells in Canada, where the Civic is the best-selling passenger car.

The second shift at plant No. 2 was cut in February, 2009, when output was reduced to 400 a day from 800. Early next year, production will go back to 600 a day, Honda Canada spokesman Richard Jacobs said. "We're seeing demand come back," Mr. Jacobs said. "We're seeing the whole economy going through a recovery."

The boost in output will also lead to more jobs at parts makers that supply Honda, industry sources said.

That will help one segment of the industry that has been devastated by the restructuring of the North American auto industry. At the end of last year, parts makers employed 26,148 people, compared with 87,341 at the end of 2007, when the industry was already being battered by the beginning of the downturn.

Vehicle assembly is experiencing a more robust turnaround than parts making, said Bank of Nova Scotia economist Carlos Gomes, who specializes in the auto industry.

"Part of it is the currency issue," Mr. Gomes said. But he added that 45 per cent of parts production was shipped to assembly plants in Canada last year, compared with the traditional level of about 33 per cent. Canadian parts shipments are concentrated in the Great Lakes area, he said, which has declined in importance because of assembly plant shutdowns in Michigan and Ohio.

With Honda and GM Canada restoring shifts, there are only a couple of opportunities left for additional vehicle assembly.

A Ford Motor Co. of Canada Ltd., plant in Oakville, Ont., is operating on two shifts and the Canadian Auto Workers union is pressing the company to add a third to help compensate for the closing next year of its large-car assembly plant in St. Thomas, Ont.

Ford Canada has no plans, however, to add new production in Oakville, company president David Mondragon said yesterday.

"That was the old Ford," Mr. Mondragon said at the Vancouver International Auto Show yesterday. The new Ford does not chase market share at the expense of profit, he said.

With files from David Ebner

in Vancouver

Auto sector, then and now

Canada, end of 2007

Jobs

Assembly: 47,481

Parts: 87,341

Vehicle production

2,544,903

Cami Automotive Inc.

Ingersoll, Ont.: (GM-Suzuki joint venture) Chevrolet Equinox, Pontiac Torrent (two shifts)

Chrysler Canada

Brampton, Ont., assembly plant: Dodge Charger, Dodge Magnum, Chrysler 300 (three shifts)

Windsor, Ont., assembly plant: Dodge Caravan, Chrysler Town and Country (three shifts)

Ford Canada

St. Thomas, Ont., assembly plant: Ford Crown Victoria, Mercury Grand Marquis, Lincoln Town Car (one shift)

Oakville Assembly Complex: Ford Edge, Lincoln MKX (two shifts)

GM Canada

Oshawa, Ont.: two car plants, Buick Allure/LaCrosse, Chevrolet Impala and Monte Carlo, Pontiac Grand Prix

Oshawa truck plant: Chevrolet Silverado, GMC Sierra (three shifts)

Honda of Canada Mfg.

Alliston, Ont., plant one: Honda Civic, Acura CSX (two shifts)

Alliston, plant two: Acura MDX, Honda Pilot, Honda Ridgeline (two shifts)

Toyota Motor Manufacturing Canada

Cambridge, Ont.: Toyota Corolla, Toyota Matrix, Lexus RX350 (two shifts)

Canada, end of 2009

Jobs

Assembly: 35,615

Parts: 61,193

Vehicle production

1,477,079

Cami Automotive Inc.

Ingersoll, Ont.: (GM-Suzuki joint venture) Chevrolet Equinox, GMC Terrain (three shifts)

Chrysler Canada

Brampton, Ont., assembly plant: Dodge Charger, Dodge Challenger, Chrysler 300 (two shifts)

Windsor, Ont., assembly plant: Dodge Caravan, Chrysler Town and Country (three shifts)

Ford Canada

St. Thomas, Ont., assembly plant: Ford Crown Victoria, Mercury Grand Marquis, Lincoln Town Car (one shift)

Oakville Assembly Complex: Ford Edge, Ford Flex, Lincoln MKX, Lincoln MKT (two shifts)

GM Canada

Oshawa, Ont., flexible car plant: Chevrolet Camaro (one shift)

Oshawa consolidated car plant: Chevrolet Impala (two shifts)

Honda of Canada Mfg.

Alliston, Ont., plant one: Honda Civic, Acura CSX (two shifts) Alliston plant two: Honda Civic, Acura MDX, Acura ZDX (one shift)

Toyota Motor Manufacturing Canada

Cambridge, Ont.: Toyota Corolla, Toyota Matrix, Lexus RX350 (two shifts)

Woodstock, Ont.: RAV4 (two shifts)

Greg Keenan

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The Globe And Mail

G20 urged to tighten reforms; IMF, key countries warn of complacency in committing to new financial, banking rules

Wed Mar 31 2010
Page: B5
Section: Report On Business: International
Byline: Jeremy Torobin
Dateline: OTTAWA

OTTAWA -- The five countries charged with driving the Group of 20's efforts to tighten financial rules that proved insufficient to avoid the worst crisis since the Second World War say they're worried "complacency" may be taking hold.

Leaders from the 20 largest advanced and developing economies - a body that has supplanted the Group of Seven richest countries as the main forum for running the global economy - meet in Toronto in June for their fourth summit, and there are fresh warnings from the International Monetary Fund and other key organizations that more must be done to put meat on the bones of reform proposals approved by the G20 last September in Pittsburgh.

The proposals require banks to keep more reserves, shed more light on various corners of the financial system, curb big bonuses that encourage excessive risk-taking by executives of financial institutions, and force the financial industry to share in the cost of future bailouts.

"Collectively we have been making steady progress toward stabilizing and strengthening the global financial system by fortifying prudential oversight, improving risk management, promoting transparency, and reinforcing international co-operation," the G20 steering committee, which includes Canada, said in a letter signed by Prime Minister Stephen Harper, U.S. President Barack Obama, French President Nicolas Sarkozy, South Korean President Lee Myung-bak and British Prime Minister Gordon Brown.

However, the leaders said, "more work is required to restore the soundness of some global banks' balance sheets, to avoid leaving the global financial system vulnerable and restricting its ability to provide the credit needed to fuel sustainable economic growth."

Both the IMF and the Switzerland-based Financial Stability Board are making similar appeals to leaders to put their money where their mouths were last fall.

The IMF's managing director, Dominique Strauss-Kahn, lamented in a speech to Romania's parliament this week that the lesson from the financial crisis - the need to find global solutions to global economic and financial problems - "is about to be lost." And the FSB, which the G-20 nations have asked to help implement the promised rule changes, said many nations are lagging behind even though progress has been made in major financial centres such as the United States, Britain, Germany, France, Japan and Hong Kong.

Invoking the "mutual responsibility" of G-20 nations to "deliver on all our commitments to address the weaknesses that led to the financial crisis," Mr. Harper and his four counterparts stressed the importance of maintaining "vigilance" and "guard against complacency" as economies around the world recover.

A veteran Canadian policy maker made the same point last week, cautioning against taking financial regulation for granted and saying there's a limited window to overhaul the system.

Bank of Canada deputy governor David Longworth, who retires today, said it helps that the G20 nations have set deadlines of this year and next year to achieve broad regulatory changes. But as memories of the financial crisis fade and the world economy improves, he said, there's a risk that bank lobbyists and other special interests could derail the process.

"There is a danger people lose interest," Mr. Longworth said. "If things don't get done this year or next year, the probability they will get done internationally is lower."

The Obama administration is planning a levy on its biggest banks, and similar proposals are being discussed in Britain, France and Germany.

With reports from Kevin Carmichael in Ottawa, Bloomberg News and Reuters

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The New York Times

Mortgage Bonds Present New Risks

Wed Mar 31 2010

Page: 2

Section: Business/Financial

Byline: AGNES T. CRANE and ANTONY CURRIE

Column: REUTERS BREAKINGVIEWS

Illustrations: PHOTO: Ben Bernanke indicated the Fed might sell the mortgage bonds it has bought. (PHOTOGRAPH BY WIN McNAMEE/GETTY IMAGES)

Investors seem remarkably relaxed about the end on Wednesday of the Federal Reserve's \$1.25 trillion program to buy mortgage-backed bonds guaranteed by Fannie Mae and Freddie Mac.

Just a few months ago, many worried that, without the central bank's continued intervention, home loans could become expensive enough to scare off prospective buyers and send the market into a renewed slump. Now they are regarding the Fed's exit as little more than a minor blip. But that could be a sign that complacency is seeping back into the financial system.

Granted, there are reasons to explain investors' sanguine view, and timing has much to do with it. For starters, a lot of traditional buyers of these agency mortgage bonds have either stayed on the sidelines or bought far fewer bonds than their portfolio allotments allow. They, along with index funds, now account for 18 percent of the market, down from 25 percent before the Fed stepped in, according to Credit Suisse.

But many do not have other investment opportunities right now that match their stringent criteria, meaning they may move to fill any gap left by the Fed. Banks with cash to spare after raising their capital levels are obvious potential buyers, too, as Jamie Dimon, JPMorgan Chase's chief, pointed out at a conference last month.

Bondholders are also about to receive a windfall. Credit Suisse estimates that Fannie and Freddie will put \$136 billion back into mortgage bond investors' hands from April to June as they purchase bad loans from the pools of mortgages underlying existing bonds. That should take the sting out of the Fed's withdrawal. Assuming investors plow that money back into the market, those dollars would be enough to replace the central bank's recent buying volume for three to four months.

All in all, market watchers seem to think the end of the Fed program should have little impact. Many expect mortgage bond spreads, or risk premiums, to widen by only 0.15 to 0.2 percentage points, a marginal retreat from the roughly 1.5 percentage point decrease in spreads since the height of the panic in November 2008. There's just too much money waiting to pounce on any weakness in the market for spreads to increase more than that, the argument goes.

That may be true. But here's the problem: Should investors lap up mortgages, they won't be picking them up cheaply, even if prices drop a bit as

expected. Over the last 15 years, mortgage spreads over a blend of Treasury maturities have averaged around 1.45 percentage points, about where they're expected to settle without the Fed's help. That's hardly bargain territory.

What's more, the Fed seems to be slowly changing its tune about keeping the mortgage bonds it has bought. Last week, Ben S. Bernanke, the Fed chairman, and several of his colleagues appeared to put greater emphasis than before on asset sales as a way to help end the central bank's extraordinarily easy monetary policy.

No one expects the Fed to unload its holdings anytime soon, which would be reckless given the housing market's fragility and the country's high unemployment. But since the Fed now owns about 25 percent of the outstanding stock of mortgage bonds, any talk about actually selling should be a cause for greater concern than the Fed simply ending further purchases.

Interest rate risk also looms large. As the economy improves, rates can only rise. That means fewer American borrowers will repay their mortgages early and investors will be left holding bonds for longer than expected, potentially causing a mismatch between funding and asset maturity. It could also cause bond prices to fall, creating losses, at least on paper. Though investors can hedge the interest-rate risk, there has never been a perfect hedge for mortgage bonds.

Finally, unusual behavior in financial markets should give investors pause. Not only did market yields shoot up unexpectedly last week, but rates on interest rate swaps -- the mortgage market's primary tool for hedging interest rate risk -- fell below Treasury yields, a rarity that could make hedging less effective.

Alarm bells aren't ringing yet, but it's a timely reminder that even for investors who are relaxed about the Fed pulling out of mortgage markets, more traditional risks still lie in wait.

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