Calgary Herald

Calgary industrial real estate market to remain slow; Soft demand will drive construction down into 2010

Thu Nov 5 2009
Page: E5
Section: Calgary Business
Byline: Mario Toneguzzi
Source: For the Calgary Herald
Illustrations: Colour Photo: Calgary Herald Archive / "We're going to see a fairly large supply of real estate come on the market in 2010," says CB Richard Ellis senior associate Iain Ferguson.

C onstruction in the industrial real estate sector in Calgary is expected to remain slow through the remainder of this year and into 2010, says a report by CB Richard Ellis Ltd.

And Iain Ferguson, with CBRE in Calgary, told a real estate conference Wednesday that a halt to speculative construction next year will leave the city with a shortage of supply in 2011-12.

"Demand has softened," he said at the Buildex Calgary event at the BMO Centre.

"We're going to see a fairly large supply of real estate come on the market in 2010" as a result of company downsizing and sublease space becoming available.

The CBRE third-quarter market report said construction in the Calgary industrial market continues to decline as developers are no longer building product on speculation.

"Many developers will continue to hold construction projects until the demand for space starts to increase and the abundance of existing product begins to be absorbed," said the report.

"The majority of projects that are currently under construction tend to be owner-user projects as developers are uninterested in moving forward with proposed plans until pre-leasing has occurred."

The commercial real estate firm said vacancy rose to 4.7 per cent in the Calgary industrial market in the third quarter, which is an increase of 30 basis points from the previous quarter.

A third-quarter market report by DTZ Barnicke said inventory growth has levelled off sharply as developers have shown little appetite for bringing speculative space onto the market.

"Projects are being pushed to the point where building can commence, but developers are waiting for the economic climate to improve or have substantial pre-leasing in place prior to breaking ground," said the company.

According to CBRE, the city has an industrial real estate market inventory of just over 114.2 million square feet. Just over 5.3 million square feet was vacant as of the end of the third quarter.

CBRE said land transactions have continued to slow down dramatically in 2009. Land prices since 2008 have dropped between 15 and 20 per cent. Average land prices for serviced land are hovering around $500,000 per acre, with limited serviced land ranging from $265,000 to $300,000 per acre.

"The decrease in land values has been a result of the abundance of serviced and unserviced land available for potential purchasers and the lack of absorption of land in the last three quarters," said CBRE.

"The main reason for the lack of land activity stems from the significant increase in existing owner-user opportunities available for purchase and the rising costs of developing."

mtoneguzzi@theherald.canwest.com

The Globe And Mail

Chrysler pledges to repay Ottawa; Auto maker says it will pay back government bailouts within five years

Thu Nov 5 2009
Page: B1
Section: Report On Business: Canadian
Byline: Greg Keenan
Dateline: AUBURN HILLS, MICH.

AUBURN HILLS, MICH. -- AUTO INDUSTRY REPORTER

A flood of new models and co-operation with partner Fiat SpA will drive Chrysler Group LLC to break even in 2011 and repay its U.S. and Canadian government loans by 2014, Chrysler executives vow.

"The fate of the Fiat car business and Chrysler are now inextricably intertwined," Fiat and Chrysler chief executive officer Sergio Marchionne told an audience that included analysts, suppliers, key union leaders, media and the great-grandson of Walter Chrysler, who founded the company in 1925. "It is an ideal combination," Mr. Marchionne said.

The return to profits after a trip through U.S. bankruptcy court is based on an ambitious plan to nearly triple sales of Chrysler vehicles around the world by 2014 to more than 2.8 million. Chrysler sold a little more than one million vehicles in 2009.

Meeting those sales projections would require a recovery of the U.S. automotive market and Chrysler boosting its share of vehicle sales there. "We do need to reacquire some of the market share we lost in the past," Mr. Marchionne said yesterday as he wrapped up a six-hour presentation by senior executives in the design dome at the company's headquarters in suburban Detroit.

To achieve that leap in sales, Chrysler is refreshing and redesigning 75 per cent of its portfolio by the end of 2010 and the entire lineup by 2012 at a cost of $23-billion (U.S.).

The plan includes a massive transfer of Fiat technology in engines, transmissions and platforms - basic vehicle underbodies - that will allow Chrysler to develop new small and medium-sized cars, two segments in which it has been woefully weak.

In government circles, there is still deep skepticism that General Motors and Chrysler will be able to return the tens of billions of dollars used by the U.S. and Canadian governments to bail them out. A report by the U.S. Government Accountability Office issued earlier this week said Washington is unlikely to recover its investment in either of the two auto makers.

But GM CEO Fritz Henderson and now Mr. Marchionne say they can prove those predictions wrong.

"Today is the first day of new Chrysler," said the Italian-Canadian CEO, who was clad in his trademark sweater while almost all other senior executives who made presentations sported suits and ties.

The outline of the five-year business plan came one day after Chrysler reported a 30-per-cent decline in U.S. sales and a share of less than 8 per cent in the U.S. market, which is beginning to recover from its worst performance in decades.

Boosting sales volume will be a difficult task in the hypercompetitive North American market, analysts said. The plan includes a huge increase in Jeep sales to 800,000 by 2014 from 497,000 in 2008.

"That's going to be incredibly hard," said long-time industry analyst Joe Phillippi, who heads Auto Trends Consulting Inc. in Short Hills, N.J., and attended the presentation.

"There are so many competitors. Just because your name is Jeep, doesn't automatically give you a sale."

Chrysler's new plan calls for profit of $3-billion by 2014 and cutting debt in half by $4-billion by the same date. The company will break even in 2011, chief financial officer Richard Palmer said.

By 2014, 21 Fiat and Chrysler models will be built on seven platforms. That compares with the same number of models in 2010 from 11 platforms. By producing an estimated 305,000 vehicles per platform - more than double the current ratio - the company will save on development and tooling costs for all models.

Several Chrysler models will use Fiat engines, including the Italian company's Multair technology, which is used in smaller engines and provides better fuel economy and produces lower emissions than Chrysler's existing small engines.

Among the new products, Mr. Marchionne said mid-sized sedans to replace the Chrysler Sebring and Dodge Avenger are critical. Those models could be could be built in Chrysler's Brampton, Ont., plant alongside the company's large cars, one analyst said.

While the company did not outline what plants will receive new investment, the company's Windsor, Ont.-built minivans will get a major upgrade next year.

"The 300 [sedan] will not be moved from Brampton. The vans will stay in Windsor," Mr. Marchionne said.

The revival will also be bolstered by new national advertising campaigns for Chrysler, Dodge, Ram and Jeep brands, starting last night with new ads for the Ram pickup.

Fiat gained control of 20 per cent of Chrysler and management control of the No. 3 Detroit auto maker in June.

Chrysler was bailed out with a $12.5-billion loan from Washington and $3.8- billion (Canadian) from the Canadian and Ontario governments. Ottawa and Ontario now own about 2 per cent of Chrysler.

***

THE MARKETING PITCH

'What's missing with Chrysler is this clarity of what makes each of their brands different. What is this essence, how do they communicate it ... and how do they deliver it? They need to nail this before making more empty advertising promises.'

-Greg de Koker of Instinct Brand Equity, a Toronto-based brand coaching firm

Chrysler's new tags

JEEP: I live, I ride, I am, Jeep

RAM: My name is Ram

DODGE: Soul by Design

***

Chrysler plan highlights

Shared purchasing between Chrysler and Fiat, a move said to save $2.9- billion (U.S.) from 2010 through 2014

Chrysler plans to build its Jeep brand to sell 800,000 units globally by 2014, up from 487,000 last year

Dodge brand will focus on cars and minivans

Ram is the trucks-only line.

Heavy trucks will use fuel-efficient Fiat engines.

Staff, Reuters

The Washington Post

Senate votes to renew tax credit for first-time home buyersProvision for $8,000 refund part of bill to extend jobless aid

Thu Nov 5 2009
Page: A05
Section: Asection
Byline: Dina ElBoghdady

The Senate voted Wednesday to renew the government's $8,000 tax credit for first-time home buyers through the first six months of next year as part of a broader bill designed to extend unemployment benefits.

For the first time, the tax credit program would also enable many homeowners who buy a new primary residence to receive a $6,500 refund.

The measure was attached to a bill that would provide 20 weeks of unemployment benefits in more than two dozen states with jobless rates above 8. 5 percent and up to 14 weeks elsewhere. Another provision in the bill would allow businesses that had operating losses in 2008 and 2009 to seek refunds for taxes paid on profits over the past five years.

The bill, which passed 98 to 0, should reach the House floor by Thursday, House Majority Leader Steny H. Hoyer (D-Md.) said in a statement. His office said the legislation would then go to the White House for the president's signature.

The Obama administration has previously supported extending the $8,000 tax credit, and without congressional action the program would end Nov. 30.

Under the bill, first-time home buyers would receive the $8,000 tax credit if they sign a contract by April 30 and close on it by June 30. The plan would also make those who buy a new primary residence eligible for the $6,500 credit if they owned their current home for at least five consecutive years in the previous eight years.

But the measure limits the purchase price of the home to $800,000. It also imposes income caps so that people who make more than $125,000 annually and couples who make more than $225,000 would not be eligible for the program, which is estimated to cost $10 billion.

Sen. Johnny Isakson (R-Ga.), a longtime advocate of the tax credit, praised passage of the bill in his chamber but said the extension would be the last one. "Tax credits like this only work by creating the sense of urgency to take advantage of them," Isakson said in a statement.

The tax credit and the broader bill in which it is included are part of a series of Democratic-led initiatives aimed at helping the economy and people who have lost their jobs.

The unemployment benefits of more than 1 million people would lapse without this extension, according to the National Employment Law Project, a nonpartisan group that tracks the issue. More than 15 million Americans are unemployed, more than a third of them for longer than six months.

Although the legislation gained wide bipartisan support, it had been mired in bickering for weeks as Republicans tried to attach amendments that Democrats opposed. Party leaders from both sides voiced support for the core measures, including the tax credit.

Supporters of the tax credit, including the real estate industry, say it has energized home buyers and helped increase sales. But critics say the program is too expensive and has attracted mainly people who were going to buy a home anyway.

In the Senate's measure, taxpayers would be able to claim the credit on their 2009 income tax return for purchases made in 2010.

Staff writer Perry Bacon Jr. contributed to this report.

The Washington Post

Fed stands by rock-bottom interest rates for near futureRECOVERY VIEWED AS FRAGILE Policymakers detail factors that could change view

Thu Nov 5 2009
Page: A20
Section: Asection
Byline: Neil Irwin

Federal Reserve leaders are sticking with their policy of very low interest rates for some time to come, they indicated Wednesday, but gave new details of the factors they will use to decide when to change course.

Fed policymakers, following a two-day meeting, said that "economic activity has continued to pick up." But they also said that conditions are "likely to remain weak for a time," and left their target interest rate at a range of zero to 0.25 percent, as was widely expected. They also said that low rates are likely to be warranted "for an extended period."

Fed leaders were signaling that they view the economy as sufficiently weak, and the recovery sufficiently fragile, that they are in no hurry to raise rates. The zero-interest-rate policy, put in place 11 months ago, has been a significant factor in the nascent economic turnaround, helping to lower borrowing costs for consumers and businesses and to replenish depleted bank balance sheets.

"Basically, they're saying they're not going to do anything for quite a while," said Kurt Karl, chief U.S. economist for Swiss Re. "They're saying that things are getting a little bit better in the economy, but it's nothing to get exuberant about or to cause an inflation problem."

But the central bank did provide some specifics about the conditions driving the low-interest-rate policy: An economy that is producing well below its potential and inflation that is both low and not expected to rise in the future. Fed watchers interpreted that as a sign that officials are at least on the lookout for a change in conditions that could provoke a rate increase.

"They're giving us the parameters they're going to be watching to decide when to start thinking about raising rates," said Alan Levenson, chief economist for T. Rowe Price. "It's not that they're anywhere close to doing so, but it's a subtle and significant preparatory movement."

The Fed is moving forward with previously announced plans to wind down its unconventional efforts to prop up the economy, including letting $1.25 trillion in purchases of mortgage backed securities conclude by the end of March 2010.

And Fed policymakers said Wednesday that they will curtail a program to buy $200 billion worth of debt in government-sponsored housing companies such as Fannie Mae and Freddie Mac -- not because they are trying to back away from efforts to support the economy, but because there isn't enough of that debt being issued. Instead of purchasing the full $200 billion in debt, the Fed will wind down its efforts after buying about $175 billion.

After a remarkable two years of aggressive interventions to support the credit markets and the economy, the Fed appears to be entering a more stable period, of waiting to see whether the nascent economic recovery has any legs.

The economy grew at a 3.5 percent annual rate in the third quarter, as measured by gross domestic product, but much of that growth was led by boosts from government policies and business inventory decisions that may not be sustained in future quarters. Moreover, the employment situation remains dire; the Labor Department will report October numbers on Friday, which analysts expect will show that the unemployment rate rose to 9.9 percent and that employers cut another 175,000 jobs.

In the statement following their meeting, the Federal Open Market Committed said that "Household spending appears to be expanding but remains constrained by ongoing job losses, sluggish income growth, lower housing wealth, and tight credit," which matches the view of many private economists.

New data Wednesday supported the idea that the recovery is a fragile one. The Institute for Supply Management said that the service sector expanded at a slower clip in October than in September, with its index of business activity in nonmanufacturing firms falling to 50.3, from 50.6 (numbers above 50 indicate expansion). Even more worrisome, the companies surveyed cut back on their staffing more aggressively in October, as the employment index fell to 41.1 from 44.3.

And ADP, the payroll processing company, said that private employers cut 203, 000 jobs in October. That did reflect a slower rate of job losses than the 254, 000 shed in September, however.

"The labor market is now at a critical turning point," said Bernard Baumohl, chief global economist of the Economic Outlook Group. "If the economy can't shake off its lethargy and shows just anemic growth, there will be little justification for companies to hire more workers."