GLENN BAGLO/VANCOUVER SUN

A customer checks out a pair of boots at Sterling Shoes in North Vancouver's Capilano Mall. The Vancouver-based income trust announced 12 new store openings Tuesday, bringing its national total to 125.

Sterling Shoes rebounds

CLOTHING | Growth cushions the impact of new income fund tax

BY MICHAEL KANE
VANCOUVER SUN

Vancouver-based Sterling Shoes Income Fund announced a 14 per-cent increase in distributions Tuesday — almost half the potential tax hit facing income trusts in 2011.

If the current pace of growth at the 125-store chain continues, monthly payouts to unitholders won't have to be cut to accommodate the bombshell tax announced by Finance Minister Jim Flaherty on Halloween.

"We're not factoring in 31.5 per-cent tax on our distributions because our growth is vastly outpacing that," Dan Gumprich, chief financial officer, said in an interview.

"When we get into 2010, if we are lucky enough to still be growing, we will just build a buffer into our monthly distribution which we do, anyway, because we are in a cyclical business."

The fund's payout ratio for the nine months to Sept. 30 was 67.8 per cent of $8.6 million generated in distributable cash.

Sterling Shoes, which also sells under the Freedman Shoes, Jonesse, Shoe Warehouse and Gia banners, reported third-quarter sales growth of 24 per cent compared with the same period last year.

The fund's units closed up five per cent or 65 cents at $14.05 Tuesday on the Toronto Stock Exchange. The units have recaptured 93 cents of the $2.13 in value lost after Flaherty announced plans to put income trusts on the same tax footing as Canadian corporations.

The tax on distributions, which is subject to changes in tax rates between now and 2011, is expected to be neutral for Canadian residents because of the offsetting impact of the dividend tax credit. However, it is an absolute cost for pension funds and non-residents, which is why many of those investors sold off the sector in the wake of Flaherty's announcement.

"Our units at this stage are not being valued correctly," Jeremy Horwitz, Sterling president and CEO, said in an interview Tuesday. "I think there has just been an over-correction at this stage."

Earlier, Horwitz told a conference call for analysts that Sterling has increased market share, revenues, margins, net earnings and distributions.

"We will continue to be a great company with a tremendous offering of products, loyal customers and a growing market share," he said. "We will continue to focus on generating exceptional returns for our investors through superior profits and cash flow."

Effective Nov. 1, monthly distributions are being increased to 12 cents per unit from 10.5 cents per unit, bringing the total increase in monthly distributions to 34 per cent since Sterling converted from a private company to an income trust in July 2005. The fund also made a special, one-time distribution of 16 cents per unit last January.

It has added 12 new stores during the three months to Sept. 30 while increasing same-store sales by six per cent. While operations are primarily in Western Canada, the fund expects to add its 25th store in Ontario by year-end.

"Strategically we are growing in Ontario but opportunistically we are growing in the West, and we will continue on that basis," Gumprich said.

Sterling Shoes was founded in 1987 with five shopping mall locations and taken over by Horwitz in 1994 when sales from about 23 stores totalled $12 million.

Sales for the 12 months to Sept. 30 were $95.3 million, compared to $71 million for the 12 months to April 30, 2005, prior to going public.

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If the shoe fits . . .

Sterling Shoes Income Fund is off and running with a healthy increase in distributions and an aggressive store expansion plan. In only 16 months, the Vancouver-based income trust has added 25 stores, most of them in Ontario.

Store count

	July 12/05	Nov. 10/06
B.C.	59	62
Alberta	24	25
Sask.	4	3
Manitoba	11	11
Ontario	2	24
Total	100	125

Olympics' effects on housing could last until 2031

Impact likely marginal, 'not transformative'

BY DERRICK PENNER
VANCOUVER SUN

British Columbia's southwest region can expect the 2010 Winter Olympics to deliver a four-per-cent kick to housing growth, economist David Baxter said Tuesday.

Baxter, speaking to Canada Mortgage and Housing Corp.'s annual housing outlook conference, said the impact will be marginal, "not transformative." The increase in home construction — above what would have been expected without the Games — could last until 2031. It will be driven by people moving into the region for jobs created by Olympic-related spending, and then from the "legacy effects" felt from the promotion of Vancouver.

Canada Mortgage and Housing commissioned Baxter's Urban Futures Institute and CitySpaces Consulting Ltd. to study the potential impact the Olympics could have on demand for housing from 2006 until the event, and beyond.

Baxter said their study estimated that by 2031, B.C.'s southwest, which includes Greater Vancouver and the Sea to Sky corridor, will have drawn 94,000 more people looking for work than it would have if the games weren't here.

Those workers, along with dependents, will give the overall population a boost of 152,000.

Housing those people, Baxter said, will require 27,000 more houses, 13,600 more townhouses and 20,500 more apartments. In total, the housing growth works out to be about four-per-cent higher than if Vancouver and Whistler weren't hosting the games.

"Are the games a big deal?" Baxter said. "They make a positive contribution to [the economy], but they're not transformative."

He noted that the Vancouver-Whistler region will be the largest area with the biggest economy to ever host the Winter Olympics, so "we're going to absorb [the games] and move on."

Baxter added that critics are right in saying that there are a lot of other things that governments could spend money on than the games, but they likely would not have spent as much in absence of the Olympics and likely not all in B.C.

Baxter said the construction stimulated by the games is "the real issue . . . which brings a lot of people who would otherwise go to [Alberta's] oilpatch."

Then, more importantly, is the role the games' play in reinforcing Vancouver as a brand, because "the Olympics is not a destination event, it's a branding event."

Canada Mortgage and Housing regional economist Carol Frketich said the agency commissioned the Olympics study as part of its mandate to research events or trends with a potential to affect housing markets.

To do the study, Baxter said the consultants studied the experiences of other host cities along with B.C.'s housing market data. The estimates included the use of an extrapolated, long-term trend for B.C.'s economic growth factoring in an estimate for Olympics-related spending.

Baxter said consultants used an estimate of $4.9 billion in direct, indirect and induced Olympics-related spending to host the games and related activities.

That figure was one scenario forecast by InterVISTAS Consulting in its cost-benefit scenario for the games.

To put that spending estimate into context, Baxter noted that the labour contracts the provincial government signed with civil-service unions will have a direct, $6-billion impact by 2010.

And the province will spend $12 billion on health care and $8 billion on education this year.

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Olympic-sized housing boost

Consultants have estimated the impact that hosting the 2010 Winter Olympics could have on housing markets. Economist David Baxter says, based on a spending estimate of $4.9 billion, the impacts will not be big, but not negligible either. They are:

- 94,000 new workers in the workforce.
- 152,000 boost to population.
- 61,100 additional housing units.

Stable housing market until 2010 predicted

BY DERRICK PENNER
VANCOUVER SUN

The outlook for British Columbia's housing market looks stable until 2010, Canada Mortgage and Housing Corp. reported Tuesday.

Canada Mortgage and Housing regional economist Carol Frketich said she expects overall housing sales and construction starts to decline, but prices will continue rising on continued economic strength.

Frketich said low inflation and mortgage rates, along with continued population and employment growth, will outweigh the negative effect on B.C.'s resource sector of a slowdown in the United States housing market .

The forecast picture "[bodes] well for the province's housing sector," she added.

Provincially, Frketich is forecasting 95,000 Multiple-Listing-Service-recorded sales in 2007, down five per cent from 2006.

Her forecast of 35,000 housing starts across the province in 2007 is also down from 2006.

Canada Mortgage and Housing is the latest agency to release its 2007 forecast, and it is consistent with previous predictions by Credit Union Central B.C. and Re/Max in estimating lower housing sales and new-home construction, yet with higher prices.

Frketich added that construction intentions for the next several years, which stand at $58 billion, helps bolster prospects for continued low unemployment levels and increasing wage gains among workers, which she said have been outpacing inflation.

Declining housing starts in the U.S. will hurt B.C.'s forestry sector, but will have little effect on the overall provincial economy, she said.

Frketich is forecasting 3.5 per cent economic growth in 2007. Without the U.S. slowdown, and its drag on lumber producers, her projection might have been four per cent.

Charles King, Canada Mortgage and Housing's regional manager for business development, said that while a U.S. slowdown "is a problem in and of itself" in Greater Vancouver, the region's economy will protect the housing market from a downturn.

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Canada sliding into deeper debt

Fraser Institute blames long-term costs of old age security and medicare

BY ERIC BEAUCHESNE

OTTAWA — Canadian governments may be running budget surpluses, but once their full financial obligations, such as to old age security and medicare are counted, they are sliding deeper and deeper into debt — at the latest count $2.7 trillion or $171,032 for every taxpayer in Canada, an economic think tank warned Tuesday.

Canadians should be concerned, Niels Veldhuis, senior economist at the Fraser Institute, and co-author of the report, said in an interview.

"Basically one of two things has to happen," he said.

"You have to address the benefit side by reducing benefits, or you have to increase taxes."

Federal, provincial, and local governments have slowly been paying down their net direct debt in recent years, which is the debt the public most often hears about, the report acknowledged. That net direct debt, which is their liabilities minus their assets, fell to $798 million from $832 billion between 1999 and 2004.

"The decline in direct government debt is certainly a welcome development," Veldhuis said. "However, the greatest concern for taxpayers is the growing unfunded liabilities associated with programs such as Old Age Security and Medicare."

The unfunded liabilities of Medicare, Old Age Security, and the Canada Pension Plan total $1.5 trillion and have increased by 19.7 per cent during the five-year period, it said.

The reason, it said, is that at their inception, funding for such programs was based on the assumption that the population, economy and wages would continue to grow at the pace seen in the 1960s and would allow a small amount of money from a large group of younger workers to be used to benefit a small group of relatively poor retirees.

"These assumptions have proven entirely false," the report charged. "Birth rates have declined, income growth has stagnated and mortality rates have decreased."

The proportion of Canadians under 20 years of age has fallen to less than 25 per cent from nearly 40 per cent 50 years ago, while the proportion over 65 has nearly doubled to 13 per cent from 7.7 per cent, it said.

That aging of the population is projected to continue so that by 2040 the elderly will make up nearly one-quarter of the population while those under 20 will make up only 20 per cent, it added, warning that will undermine the ability of these programs to provide the intended level of benefits.

Of the provinces, Ontario carries the largest total liabilities per person at $92,490, followed by Quebec at $88,778 and Alberta at $87,630, it said.

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