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CALGARY BUSINESS

MONEY • ENERGY • TECHNOLOGY • WORK

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THURSDAY, DECEMBER 27, 2007

Supply fears drive oil rally

MARK SHENK
 BLOOMBERG

Crude oil rose to a one-month high in New York as a government report today may show a U.S. inventory decline, and as Turkish planes bombed suspected Kurdish sites in northern Iraq.

Oil supplies probably dropped 1.63 million barrels in the week ended Dec. 21, according to the median of 10 responses in a Bloomberg News survey of analysts. The Turkish strikes were the latest in a series of cross-border attacks on the outlawed Kurdistan Workers Party, or PKK.

"We're looking for the sixth straight weekly" drop in oil supplies, said Addison Armstrong, director of market research at Tradition Energy in Stamford, Connecticut. "The Turkish attacks are factored in but this isn't a new problem and it has had no impact on the oil flow."

Crude oil for February delivery rose \$1.84, or two per cent, to settle at \$95.97 US a barrel at 2:47 p.m. EDT on the New York Mercantile Exchange. It was the highest close since Nov. 26. Futures touched a record \$99.29 on Nov. 21 and are up 57 per cent from a year ago.

"We're going to see traders push prices back toward \$100 during the next few days," said Justin Fohsz, a broker at Star-supply Petroleum, a division of GFI Group Inc., in Englewood, N.J. "The market will continue to move around a lot because trading is so light."

Trading has been lower than usual because of the end-of-year holidays. NYMEX oil traders exchanged 81,634 contracts on Dec. 24, down 82 per cent from a week earlier, according to data compiled by Bloomberg.

"The main thing is that this is a thin, volatile market," Armstrong said. "If someone wants to push this market, they clearly can."

The Energy Department is scheduled to release its weekly report on inventories today at 10:30 a.m. in Washington, a day later than usual because of Christmas.

"The ongoing Turkish air attacks are an excuse to push prices to the upside," said Tim Evans, an energy analyst at Citigroup Global Markets Inc. in New York. "It's debatable whether this will have any effect on Iraqi shipments."

Crude oil prices also rose because the U.S. dollar fell against the euro, which bolstered the appeal of commodities as a hedge against inflation. Weak Christmas retail sales in the U.S. indicate consumers are starting to feel pressured by the slowdown in the housing market. The U.S. uses about 25 per cent of the world's oil.

Brent crude for February settlement rose \$1.24, or 1.3 per cent, to close at \$93.94 a barrel on London's ICE Futures Europe exchange. It was the highest close since Dec. 12.

THE YEAR IN COMMERCIAL REAL ESTATE



Mike Gigliuk is director of research for Alberta at CB Richard Ellis, which found that the downtown office market vacancy rate went from a miniscule 0.5 per cent at the end of 2006 to a projected 3.5 per cent at the end of 2007.

Stuart Gradon, Calgary Herald

COMMERCIAL REAL ESTATE IN CALGARY

	DOWNTOWN OFFICE	SUBURBAN OFFICE	INDUSTRIAL
*Q4 VACANCY RATE	3.5%	3.6-3.7%	1%
**2006 VACANCY RATE	0.5%	1/9%	0.8%
UNDER CONSTRUCTION	5.6 M sq. ft.	4 M sq. ft.	1.5 M sq. ft.
INVENTORY	32.7 M sq. ft.	15.6 M sq. ft.	109.1 M sq. ft.

* PROJECTED. ** YEAR-END. SOURCE: CB RICHARD ELLIS

Office vacancy rates fall to healthier levels

Landlords the 'envy of any major city'

MARIO TONEGUZZI
 CALGARY HERALD

The demand in Calgary's tight commercial real estate market eased a bit in 2007, but remained strong throughout the year heading into 2008.

As a result, vacancy rates in the office, industrial and retail sectors continue to hover at low levels at the end of this year.

"If you look at our vacancy rates, they're the envy of any major city worldwide if you're looking at it from a landlord's perspective," said Mike Gigliuk, director of research for Alberta at CB Richard Ellis.

The downtown office market vacancy rate went from a miniscule 0.5 per cent at the end of 2006 to a projected 3.5 per cent at the end of 2007 while the suburban office market vacancy rate has climbed from 1.9 per cent to a projected 3.6 to 3.7 per cent during the same time period, according to research by CBRE.

Meanwhile, the industrial market has stayed in the one per cent range throughout the year.

This year's commercial real estate market has experienced a far more temperate demand side and that's because of the supply side constraints owing to the (escalating) costs that are now associated with construction, said Bruce Graham, president and CEO of Calgary Economic Development.

Softening natural gas prices, the province's royalty review and the construction costs

have slowed things down from the frenzied pace the city experienced in 2006.

But the pace of construction in the commercial real estate sector remains quite impressive.

"What it says for 2007 overall is a reflection of a very positive year with a great deal of optimism," said Graham.

The office development in downtown Calgary is staggering. Currently, there is 5.6 million square feet under construction, representing more than half the downtown office construction taking place in the entire country. The suburban office market has 15.6 million square feet under construction and the industrial market has 1.5 million square feet.

"We started off the year extremely strong across the board and then at mid-year we saw a change in the downtown market and that has continued throughout the rest of the

year," said Gigliuk.

"We're just now beginning to see a slight softening of the suburban market, but no effects yet in industrial and in retail. Next year, unless there's a real significant softening of demand downtown, we shouldn't see the vacancy rate rise too much because there's not a lot of new development space coming on."

"In the suburban market, there's a lot of space. We're going to see historically our highest construction year ever and so the vacancy rate will rise even if we don't see a big fall off in demand. We're still expecting vacancy rates to rise just because there's such a huge construction bubble in 2008 in the suburban market."

Graham said in 2007 there was a move toward rebalancing in the commercial real estate market, particularly in the downtown office core.

SEE REAL ESTATE, PAGE F5

MARGIN CALLS

Cards used 15.6M times in a day

SHOPPING DAY • The Canadian love affair with the debit card continued with about 15.6 million transactions taking place on Friday, Dec. 21, the year's busiest shopping day, according to Interac Direct Payments.

Strong volumes continued for the rest of the weekend leading up to Christmas this year with debit cards being swiped more than 41.7 million times.

"Canadians are among the highest users of debit worldwide," Interac spokeswoman Tina Romano said in a statement. "Last year, Canadians made more than three billion Interac Direct Payment transactions worth \$148 billion, and each year this number continues to rise."

Supermarkets and specialty clothing stores were the top retail sectors that experienced the largest electronic payments, Interac said.

— CanWest News Service

Cookware sellers feel patent heat

GREEN SHOPPING • Amazon.com Inc. and two cookware sellers have been sued for patent infringement by a German maker of reusable shopping bags.

The growing "green" shopping movement has increased the demand for reusable bags. San Francisco banned the use of disposable plastic shopping bags at large supermarkets in March, and London officials are considering a similar move.

Reisenthal Accessories and founder Peter Reisenthal of Filching, Germany, said Seattle-based Amazon, wholesaler R.S.V.P. International, and retailer Chef Tools Network infringe a patent for a collapsible fabric-and-metal shopping basket, or "carry bag," as it is known in Europe.

Reisenthal sued Amazon and the other defendants in federal court in Fort Lauderdale, Fla., on Dec. 19.

— Bloomberg

Arrests ordered in fatal drug tests

PFIZER TRIAL • A Nigerian court has ordered the arrests of three of the defendants in a trial over a drug test conducted by Pfizer in 1996 which, Nigerian authorities say, killed 11 children and left others disabled.

The northern state of Kano is suing Pfizer for \$2 billion in damages and pressing criminal charges over the testing of the antibiotic Trovan on children in Kano during a meningitis epidemic that killed 12,000 children in six months. The federal government is suing for an additional \$6.5 billion and also pressing criminal charges.

Pfizer denies accusations that Trovan harmed children and that the company did not obtain proper regulatory and parental approval. It says it was meningitis that killed the children or damaged their health, while Trovan saved lives.

— Agence France-Press



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FROM FI REAL ESTATE: Focus seen shifting to northeast

“And you’re going to see hopefully within a two- to three-year time frame a healthier marketplace in terms of availability of space,” Graham said.

“We’re projecting by 2010, 2011, anywhere from a nine to 12 per cent vacancy rate and that will allow us to be more competitive price-wise and more competitive product-wise. So we’ll have hopefully bigger contiguous pieces of space that we can make available for an incoming company or consolidation opportunity. Currently, it’s very difficult to meet.”

Mike Anisimovicz, vice-president of **The Staubach Company** in Calgary, said that following a record year in 2006, Calgary’s industrial real estate market remained very strong in 2007.

“Demand for space was consistent throughout the year as tenants continued to absorb available space at the same pace new space was created, causing the city’s vacancy rate to remain at record lows,” he said.

“Industrial land appreciated at unprecedented values as availability of fully and partially serviced land continued to under-supply the large demand from developers and owner users, causing many users to look beyond the city for more affordable and available options.”

Average prices per acre were in the \$600,000 and above range depending on the location.

Looking into 2008, Anisimovicz said the city can expect continued strong demand in the industrial real estate market.

“Land will continue to be very difficult to obtain, with limited new supply within the city limits expected to be released to the market in 2008, causing increased demand for the more available and afford-



Calgary Herald Archive
Mike Anisimovicz expects continued strong demand in the industrial real estate market.

able land in the surrounding area,” he said.

“A shift of focus is expected to start in 2008 from the southeast to the northeast where more opportunities are expected to be released to the market.”

The current growth in the Calgary retail sector is evident by the amount of development taking place.

By the third quarter of 2007, a total of 856,900 square feet had been added to the inventory. Another 987,677 square feet was underway in 10 different construction projects, which would increase the inventory by 5.8 per cent.

And there are 23 projects proposed, representing 6,651,653 square feet, which would increase the total inventory in the next 24 to 36 months by 21 per cent.

The overall retail vacancy rate in Calgary was 1.3 per cent in the third quarter of this year — a record low — in an inventory of just under 31 million square feet of development throughout the city. Street-front retail was also

at a 1.33 per cent vacancy level.

“It’s been both spectacular and frustrating,” said Rob Walker, vice-president/partner of **Colliers International** in Calgary, of the year in the retail real estate market.

“It’s been spectacular in terms of the level of interest of people wanting to do deals here whether they be developers or tenants, existing and or new to the market. The frustrating thing has been the permitting process and the challenges of dealing with construction costs and delays these days. Best of one world and the worst of another.”

Assuming there is not a world event that causes the overall economic market to change, he said, the local real estate industry won’t change much in 2008 for the worse or for the better.

“I don’t think, frankly, we can build any quicker than we are right now. We’re pretty much maxed out.”

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