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## TODAY IN BUSINESS

### INVESTMENT

Alberta's new public-sector fund eyes higher returns

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Province loses title as inflation capital

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MONEY • ENERGY • TECHNOLOGY • WORK

EDITOR: CHARLES FRANK 235-7370 FAX: 235-7379

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FRIDAY, APRIL 18, 2008

## MARGIN CALLS

### Subprime bet rakes in billions

**INVESTING** • The subprime mortgage mess that caused massive losses for homeowners and banks was a little kinder to hedge fund manager John Paulson. Betting subprime mortgage securities would sour, Paulson personally earned \$3.7 billion last year.

Yes, you read that correctly. That's billion with a "B." He wasn't the only one with Titanic-size profits. Two other fund managers, George Soros and James Simons, who are notoriously secretive about their investments, earned \$2.9 billion and \$2.8 billion, respectively, according to Alpha Magazine's annual list of top hedge fund earners.

The numbers left jaws agape across Wall Street and Washington. With his windfall from last year alone, Paulson could have bought troubled Wall Street giant **Bear Stearns** three times over. Or he could have matched the price **Delta** agreed this week to pay to merge with **Northwest Airlines** and still have \$600 million left over.

### Merger activity falls 27 per cent

**ACQUISITIONS** • Global mergers and acquisitions surpassed \$1 trillion Thursday, marking a 27 per cent decline from the same period last year, according to research firm Dealogic.

Deal activity this year has been overshadowed by concerns of a U.S. recession, tight credit markets and stock market weakness.

It took 107 days for merger volume to hit the \$1 trillion mark in 2008, compared with 85 days in 2007 and 93 days in 2006.

Amid the credit drought, the value of deals by private equity firms and other financial sponsors dropped 65 per cent from the same period a year ago, Dealogic said.

Despite the drop in total deal volume, the number of global deals stood at 11,286 — the highest year-to-date figure on record, Dealogic said.

Consumer products have been the most-targeted industry this year for deals, followed by finance and technology, Dealogic said.

In the U.S., total deal volume dropped 28 per cent to \$525.1 billion, Dealogic said.

HERALD NEWS SERVICE

## HERALD ENERGY



Record prices raise expectations of a profit windfall ahead of oilpatch earnings season

Page E4

# Calgary home sales plummet

## Canadian housing boom 'officially over'

MARIO TONEGUZZI  
CALGARY HERALD

**C**algary has recorded the steepest decline in residential MLS sales in the country for the first quarter of this year, with total sales plunging by 35.9 per cent compared with the same three months in 2007, says the Canadian Real Estate Association.

The association report released Thursday says Edmon-

ton was behind Calgary, with sales dropping by 29.8 per cent — something mirrored throughout the country as the MLS market activity is off by 13 per cent from a year ago.

"Canada's six-year housing market boom is officially over," said Douglas Porter, deputy chief economist for BMO Capital Markets, in a commentary on the CREA report.

"Aside from a few choice Prairie locales, sales are melting faster than this year's snow pack."

For the first three months of this year, new listings have soared, particularly in Edmonton and Calgary, which lead the country with 52.1 per cent and 29.8 per cent increases re-

spectively in that category compared with a year ago. Across the country, new listings were up 5.1 per cent over the past year.

The association's report says that for the first three months of this year, Calgary's average MLS sales price for all residential properties increased by 4.4 per cent from 2007 to \$414,838 while the total dollar volume of all transactions decreased by 33.1 per cent to \$2.6 billion — third in the country behind only Toronto at \$6.7 billion and Greater Vancouver at \$4.7 billion.

There were 6,354 unit sales in Calgary until the end of March this year and 16,794 new listings.

SEE MLS, PAGE E3

### RESIDENTIAL MLS SALES (MARCH 2008 YEAR TO DATE)

	CALGARY	CANADA
<b>DOLLAR VOLUME</b>	\$2.6 billion	\$24.7 billion
<b>Y/Y % CHANGE</b>	-33.1 %	-8.2 %
<b>SALES</b>	6,354	75,467
<b>Y/Y % CHANGE</b>	-35.9 %	-13 %
<b>AVERAGE PRICE</b>	\$414,838	\$327,620
<b>Y/Y % CHANGE</b>	4.4 %	5.5 %

Source: Canadian Real Estate Association



## RESTAURANTS

# Iconic eatery could be yours for \$2.65M

## After 34 years, Lion's Den is up for sale

MARIO TONEGUZZI  
CALGARY HERALD

**A** decades-old Calgary institution has put up a For Sale sign on its building in the Beltline.

The Lion's Den restaurant, which has been a family-owned business for 34 years, is listed on the commercial real estate market for \$2.65 million.

Its location on 17th Avenue S.E., just west of the Stampede grounds and south of the new Stampede Station highrise condo development, is a highly sought after neighbourhood for development near the downtown core.

"After 34 years of being in the industry, the nostalgia is there, no question," said Enrico Festa, 58, who runs the restaurant with his wife Rose, 55. "The incredible friendships, people from all walks of life that you've encountered — that's the part that hurts the most. Because the first time he's a stranger; the second time he walks in the door he becomes a member of the family . . . Grandpa used to always say a stranger is a friend you haven't met yet."

From the average citizen to young police officers who eventually became police chiefs to a rock star like Don Henley of the Eagles, the Lion's Den has been a fixture on the local dining scene for a generation.

"You have to care about people. If you don't care, you're in the wrong industry. You're feeding people. You're not feeding clients," said Festa.

It will be difficult to let go of the business, he said. It's like raising children for years and then seeing them leave the nest.

But conditions have conspired to make it time to sell.

"The continued pressures that you have between all three levels of government with the amount of regulation being dumped on the small business, it is actually murder," said Festa.

"The continued cost of the food that you've got to continue to buy. The electricity going up. The gas going up. And your customers would love to continue to



Colleen De Neve, Calgary Herald

Lion's Den owner Enrico Festa says he'll be sad to see the restaurant change hands and blames red tape for prompting the sale.

come more often and eat, but the 90 per cent haven't seen the Alberta Advantage whatsoever and they're squeezing as hard as they can in order to get on by . . . You can't keep on passing the costs down to people (in menu prices). There's a limit."

The restaurant will remain open until it sells.

The building, at 234 17th Ave. S.E., is being marketed as a "great development opportunity" by CB Richard Ellis. It was built in 1955 and underwent major renovations in 1973. It also has good exposure on the popular 17th Avenue, which became known as the Red Mile during the Calgary Flames 2004 playoff run. The site is about 3,000 square feet of land.

For sale is the land, building, business and air rights.

Mark Briggs, in senior sales

and leasing with CBRE, said the City of Calgary wants to have highrise, multi-family development around the LRT stations.

"They're pushing hard for that and it just makes sense to have multi-family built around the LRT," said Briggs.

The Lion's Den location benefits from being between north- and southbound Macleod Trail on 17th Avenue near the Stampede grounds.

"It's just the traffic you get. Not just for the hockey games, but all the events that go on there. Not just Stampede. Not just for the 10 days during Stampede. Just the activity level," said Briggs. "Go down there when there's a show on, the sidewalks are full."

Lidia and Modestino Festa opened the Lion's Den on May 1, 1974. Lidia and Modestino died

in 1999 and 2000 respectively.

The legacy continues as the eccentric establishment has an old diner's feel to it with history and character decorating its walls. There are framed paintings of a Roman centurion as well as Pancho Villa. Also in the restaurant are an ABC Olympic flag from 1988, a jukebox and framed photos of Dale Rogers and her horse.

And, of course, there's the lion motif. Throughout the restaurant are photos of lions and stuffed lions, including a small one hanging from the ceiling. Even a lion coat of arms.

Enrico Festa said he will miss the camaraderie in the restaurant — "the yelling and screaming on hockey and football, the exchange of jokes."

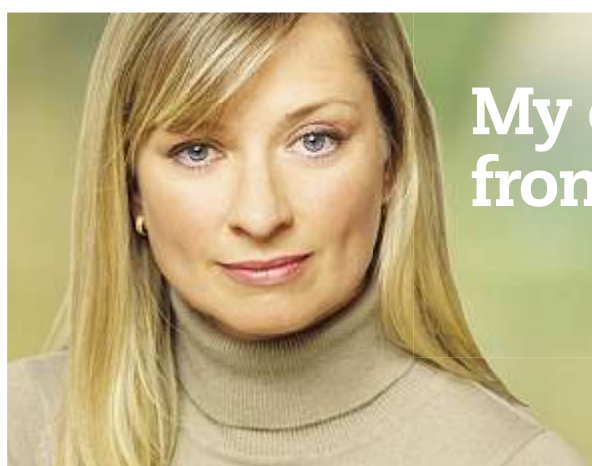
"In the old days, everybody

used to go to the restaurant, sit at the counter, discuss the stuff and learn to live as a community, the whole nine yards," he said.

And for those wondering where the moniker for the restaurant came from, Enrico Festa said: "It's my ego trip. It's an ego trip. I named it after me. I was born August 1, 1949. That makes me a Leo."

"If you ask a man — where do you feel the most comfortable in your home? — it's your den. And so if somebody's going to go out to eat, you want them to feel totally at home, totally at home. You want to be able to stretch out, let go of some of your inhibitions within certain ranges. We love to enjoy freedom in the restaurant."

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# IN BRIEF

From Herald News Services

## Regulator slaps Calgarian with ban

**SECURITIES** • A man disciplined in B.C. and the Cayman Islands will have to stop working for a Calgary investment firm under an order issued Thursday by the Alberta Securities Commission.

"It's a reciprocal order based on a British Columbia order, an older one, so he is banned from trading until Sept. 30, 2009, and he can't rely on exemptions until Sept. 30, 2014," said ASC spokesman Mark Dickey.

He said the ASC learned last August that Brian Paul Kuhn had moved to Alberta and was working with an unnamed company raising money for business ventures by relying on registration and prospectus exemptions under securities laws.

In September 2002, Kuhn was disciplined by the B.C. Securities Commission for selling shares worth \$175,000 in a tire cleaner company between February and July 1999 without checking the accuracy of the company's claims.

The ASC also noted a conviction against Kuhn in the Cayman Islands after he was charged with theft in 2003.

— Dan Healing, Calgary Herald

## Domestic auto sector in for rough ride

**OUTLOOK** • The Canadian auto industry faces tough times, separate reports released Thursday suggest.

But both reports, from Export Development Canada and UBS, express confidence that some firms will survive and even thrive.

"There are undoubtedly a lot of factors at play," Export Development chief economist Stephen Poloz said of the outlook, citing industry consolidation, increased competition from imports, declining retail prices and the strong Canadian dollar.

## Snow blamed as visitors shun Canada

**TOURISM** • Foreign visitors made the fewest trips to Canada in February since record keeping began in 1972, possibly a result of intense snowfalls across much of the country, Statistics Canada reported Thursday.

Visitors made nearly 2.3 million same-day and overnight trips to Canada during that period, the federal agency stated. Every province but Saskatchewan recorded declines in inbound border crossings.

Same-day car travel from the U.S. fell 4.1 per cent to a low of 751,000.

## Accounting firm pays retroactive overtime

**WORKPLACE** • PricewaterhouseCoopers LLP, the world's biggest accounting firm, will pay retroactive overtime to workers and former employees in Canada, the company said.

After a review of its overtime pay practices, PWC said it determined some workers who had been deemed ineligible for paid overtime will now be eligible, the company said Thursday.

Only a small percentage of former employees may be eligible, PWC spokeswoman Carolyn Forest said.

## Brazil considers bigger royalty take

**ENERGY** • Brazil is considering changes to its oil-concession legislation in the wake of giant offshore oil and natural-gas discoveries near Rio de Janeiro.

Brazil needs the changes to get more taxes and royalties from expanding oil production and to better share the benefits of high world oil prices, Brazil's Mines and Energy Minister Edison Lobao told reporters in Rio de Janeiro.

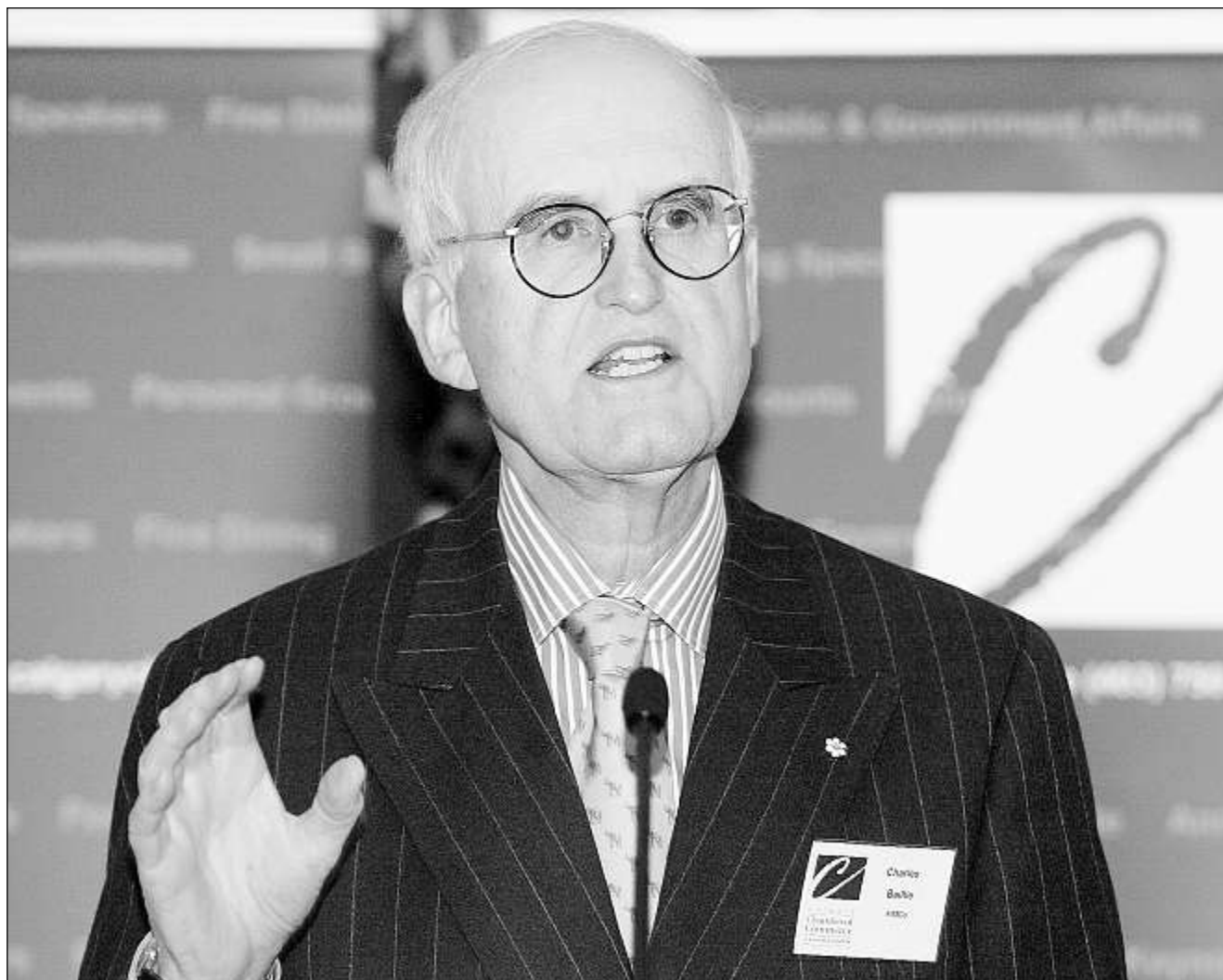
Brazil is reviewing its oil exploration block auction rules in the wake of one of the biggest finds in two decades.

## Lululemon unfazed by U.S. slowdown

**RETAIL** • Yoga wear retailer Lululemon Athletica is unruffled by U.S. economic woes, saying Thursday that tough times may help its expansion there.

The high-growth Canadian-based retailer said it has plenty of room to grow in the United States, where it had 34 stores at the end of the fourth quarter.

"We still think the potential for the company is over 300 stores in the United States," said chief executive Bob Meers.



Charles Baillie, chairman of the new Alberta Investment Management Corp., speaks at the Palliser on Thursday. Jenelle Schneider, Calgary Herald

# Public sector fund boss hunts for higher returns

## Manager of new Alberta group eyes alternative assets

GEOFFREY SCOTTON  
CALGARY HERALD

Alberta's new \$70-billion-plus public sector investment manager will be a world leader that increasingly looks to alternative asset classes to produce high returns, the corporation's chairman said in his maiden speech Thursday.

The Alberta Investment Management Corp. (AIMCo) will be "at the forefront of fund management in Canada and globally," Charles Baillie pledged in a Calgary Chamber of Commerce luncheon speech that was well-attended by the city's investment bankers and portfolio managers.

"We have been asked to make AIMCo a centre of excellence in investment management on par with, or better than, peers like the Canada Pension Plan or the funds of Alaska and Norway. In part, that means delivering higher returns," Baillie said.

"I would hope five years from now that we'd see that we have a much higher content in non-traditional assets," Baillie told reporters after his speech, stating AIMCo's target is to deliver one percentage point above a corporate bond benchmark.

AIMCo, Canada's fifth-largest money manager, was created a year ago by the provincial government to oversee management of funds ranging from the \$16.6-billion Heritage Savings Fund to a \$20-million fund. The investment management functions of Alberta Finance were hived off to create a 150-person Edmonton-based company that became operational Jan. 1, but much of the organization is still being built, Baillie said.

"While we host a seasoned and talented investment management team, we are otherwise at an embryonic stage," said Baillie, a former chairman of Toronto-Dominion bank. "We still have an intimidating number of decisions to make."

Baillie said the investment manager could solicit additional assets — potentially other public-sector pensions or funds from other provinces — in the future, suggesting it has the potential to become a global behemoth.

"The upside potential is huge in terms of the abilities they will have going forward," said Craig Senyk, director of portfolio management with Calgary's Mawer Investment Management Ltd., which oversees \$5.3 billion in assets.

"Not only will the fund grow internally from where it is, \$70 billion, but it has the potential to be a few hundred billion in years down the road — and be on par with many sovereign funds around the world."

AIMCo has yet to appoint a chief executive, but a search is well underway,

Baillie noted, adding that he, along with co-chair George Gosbee of Calgary's Tristone Capital Inc. and other board members, will work hard to create an organization that optimizes risk-adjusted returns. The organization is working to create incentive-based compensation to help attract expertise and may eventually permit a degree of employee ownership.

"The AIMCo compensation structure will offer an appropriate salary with a bias to incentives for long- and short-term performance," Baillie said. "This approach will allow us to align compensation more closely with high expectations and also to attract and retain the top players in what has become an exceedingly competitive environment."

Baillie said the goal of the agency will be to produce the highest risk-adjusted returns among its peers — which includes sovereign funds in Alaska and Norway. To do that it must look to asset classes alternate to equities and bonds, through vehicles such as real estate, infrastructure and hedges.

"There is a growing body of opinion that fixed income investments will deliver relatively low returns for the next decade," said Baillie. "That's why AIMCo's clients have been moving their assets from public ones like bonds and equities into less traditional assets such as private equities, infrastructure and hedge funds."

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## FROM E1

# MLS: Slowdown 'has taken steam out of prices'

Sales are down dramatically in Calgary and demand has diminished, but the sales numbers have to be kept in perspective considering the high level of sales experienced during the first quarter of 2007, said Lai Sing Louie, senior market analyst in Calgary for the Canada Mortgage and Housing Corp.

"(For) the first quarter 2007, the Calgary housing market was in seller's market conditions and we were experiencing a record level of sales," said Louie. "With the market softening and it coming down, we're comparing this year's production off a very, very extraordinary level."

He said the volume of sales in the first quarter are more than they were in 2004.

Across the country, total dollar volume of all transactions decreased by 8.2 per cent to \$24.7 billion while the average sale price increased by 55 per cent to \$327,620. Unit sales were 75,467 and new listings were 158,207.

"Some of the previously hottest markets have witnessed spectacular declines in activity, most notably Calgary and Edmonton, where population in-

flows have trailed off and remaining buyers are awaiting more affordable conditions to emerge even as new listings pour into the market," said Porter.

"The slowdown in activity has taken the steam out of prices."

According to Calgary realtor Bob Truman's website with First Place Realty, as of Tuesday, single-family home sales in the city were down 30 per cent in April compared with last year while condo sales were down 28 per cent. The single-family home inventory of properties for sale was 6,612 — 130 per cent higher than April 2007.

As of Thursday, the Calgary Real Estate Board website was reporting 6,641 active listings in the single-family market and 1,377 sales in the past 30 days at an average sale price of \$471,473 and a median sale price of \$418,500.

The real estate association report said total residential MLS sales in Calgary were down 39.7 per cent in March compared with March 2007 while new

listings were up 19.1 per cent. The average sale price had increased by one per cent in the past year to \$419,396.

"The double-digit drop in Canadian home sales was likely due to a combination of persistently nasty weather as well as some very real cooling in previously piping hot markets," said Porter.

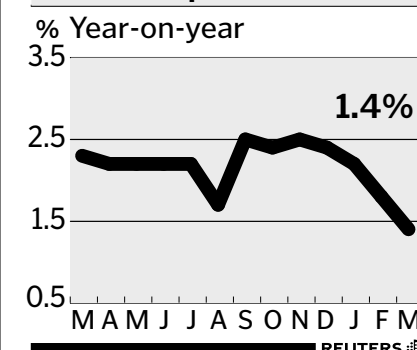
"The real test will be how sales and prices fare in the crucial spring season. Sales will likely remain down from year-ago levels, as buyers show increasing caution in the face of the U.S. downturn and reduced affordability. Even so, average home prices are still likely to post moderate gains this year."

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## ECONOMY

### CANADA

#### Consumer price index



# Alberta loses title as inflation capital

GEOFFREY SCOTTON  
CALGARY HERALD

A slower climb in gasoline prices — which were still rising forcefully — helped to trim inflation in March for the fourth consecutive month, Statistics Canada said Thursday as prices across Canada rose at a 1.4 per cent annual rate, down from 1.8 per cent in February.

The tamer price growth was reflected in Alberta, which lost its title as inflation capital of Canada.

Analysts believe the benign inflation situation across the country — the lowest rate in 14 months — has opened the door to lower interest rates, providing lots of room for the Bank of Canada to slash borrowing costs and reduce interest rates by as much as half a percentage point next week. That's even more likely because the so-called core inflation rate the central bank focuses on, which excludes volatile items, fell to 1.3 per cent.

"Because it is concerned about the slowing economy and continued tremors in the credit market, the bank has indicated that it intends on lowering interest rates," noted ATB Financial senior economist Todd Hirsch in a commentary.

"(The) inflation numbers give them lots of room to lower rates without fear of spurring inflation," Hirsch, a former Bank of Canada economist, added.

In Alberta, thanks to a slowdown in the magnitude of gasoline price increases, consumers also enjoyed a sharp drop in inflation, with a March rate of 2.9 per cent, off significantly from the 3.5 per cent gain recorded in February. Pushing prices higher were fuel, shelter, restaurant food and tax costs.

Alberta was also able to give up the title of Canada's inflation leader, which it has held for some considerable time.

"Consumers in Saskatchewan faced the highest 12-month increase, 3.2 per cent," Statistics Canada said in an analysis. "This increase was mainly supported by the rise in homeowners' cost and gasoline prices," the Ottawa-based federal agency added.

Hirsch noted that a reduction in Alberta's inflation couldn't come at a better time, as rising shelter and general costs in Alberta have significantly dulled the province's lustre as a destination for migrants.

"One of the reasons why inter-provincial migration has slowed recently is the high cost of living in Alberta," Hirsch said. "An easing of those price pressures will encourage more migration to the province."

In Calgary, the pattern of price increases continued to moderate in March, with prices 2.8 per cent higher in that month than in March 2007. That was a decline from the annual rate of three per cent recorded in February, which was itself a decline from the 3.4 per cent in January.

The big drivers for Calgary's price gains were shelter costs, which rose at an eight per cent annual pace. Calgary's owned accommodation costs rose 8.6 per cent, while water, fuel and electricity charges rose 6.4 per cent, StatsCan said.

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