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# CALGARY BUSINESS

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FRIDAY, OCTOBER 31, 2008

## Housing starts set for 37% tumble

Activity to fall to lowest level since 1995

MARIO TONEGUZZI  
CALGARY HERALD

Housing starts in the Calgary census metropolitan area are forecast to plummet by 17.8 per cent this year and another 36.9 per cent in 2009, according to a housing market outlook released Thursday by Canada Mortgage and Housing Corp.

The decline from 13,505 units in 2007 to a forecast 7,000 units in 2009 represents a staggering 48 per cent plunge to the lowest level since 1995.

The CMHC expects housing starts for single-detached homes to fall by 44.7 per cent this year to 4,300 units, but rebound by 4.7 per cent in 2009 to 4,500 units. In the multi-family market, starts are expected to increase by 18.7 per cent this year to 6,800 but drop by 63.2 per cent to 2,500 next year.

The single-detached market in Calgary and for Alberta as a whole has been moderating since the end of 2006, said Richard Corriveau, regional economist for the CMHC.

"In fact, housing starts for the single-detached market peaked in 2006 earlier in the year and then builders started to moderate their production in response to lower net migration, lower employment growth, strong price escalation and a strong rise in listings from the competing resale market," said Corriveau.

"While the single-detached market was responding since the start of 2006, the multi-family market didn't peak until the spring of 2008. Based on the timing of these projects it takes much longer to get them from the planning stages into production.

"Naturally, the response into 2009 will be for a stronger moderation in the multi-family market, whereas the single-detached market a lot of the adjustment has already occurred."

The CMHC report also forecast Multiple Listing Service

(MLS) sales locally will drop by 22.3 per cent in 2008 and increase by 2.8 per cent next year, while the MLS average sale price is expected to decline by 2.2 per cent this year to \$405,000 and rise by 0.2 per cent next year to \$406,000. Average resale prices in Calgary had increased by 65 per cent from 2005 to 2007.

"While the overall picture doesn't appear favourable, there are some bright spots to our outlook," said Corriveau. "We do see single-detached starts and MLS sales stabilizing. We don't think prices will continue to decline much further in the face of a stabilization of demand and also active listings are finally trending downward after peaking earlier this spring. All those points paint a cautiously optimistic picture for the new year."

The CMHC's outlook for the fourth quarter of 2008 forecast overall MLS sales in Alberta would drop by 16.7 per cent for the year compared with 2007, before increasing by 2.5 per cent in 2009. It also forecast the provincial average sales price to drop by 0.8 per cent for this year to \$353,500 — the first price decline in 13 years. The forecast for 2009 is a 0.7 per cent increase. And housing starts in Alberta will continue to decline by 38.5 per cent this year and another 19.3 per cent in 2009.

"Economic growth in Alberta will continue but come off its strong pace in recent years," said the CMHC report. "Real GDP will increase by 2.1 per cent this year due to moderate consumer spending growth, lower housing activity, and a slowdown in non-conventional oil production.

"With a 1.9 per cent gain in 2009, Alberta will be among the provincial leaders in economic growth, though it will not prevent a further reduction in housing starts."

In another report released Thursday, the Canadian Real Estate Association said MLS residential sales in Alberta increased by nearly 19 per cent in September compared with a year ago, the second-highest hike in the country behind Newfoundland's 26 per cent jump.

SEE HOUSING, PAGE D5

## PRICE SLIDE SPOOKS ENERGY SECTOR



Calgary Herald Archive

Royal Dutch Shell is the latest in a string of companies to slow its oilsands expansion.

## Shell delays decision on oilsands expansion

Company says costs must come down

DAN HEALING  
CALGARY HERALD

Yet another multibillion-dollar oilsands project has been put on hold as rising costs and uncertainty about financial markets and commodity prices grip a sector that had anticipated \$126 billion in new investment over the next four years.

On Thursday, **Royal Dutch Shell** announced it would delay its decision on a second 100,000-barrel-per-day expansion of its Fort McMurray-area oilsands mining operations until costs come down.

"Clearly, there is significant industry inflation and a tight labour market in the Alberta area," said chief executive Jeroen van der Veer in a conference call to discuss Shell's 22 per cent increase in third-quarter profit to \$8.45 billion US.

SEE OILSANDS, PAGE D5

### Financial crisis hits global oil investment

The growing economic crisis and plunging energy prices have forced oil companies to scale back spending and delay projects, with expensive ventures in the Alberta oilsands hardest hit. Below is a list of projects that have been delayed or scaled back in recent months, as well as other related news.

■ **OCT. 29:** Thai refiner and petrochemical firm **IRPC** reviews a \$1.5-billion US investment plan. Has delayed a refinery expansion to 260,000 barrels per day and cut its run rate by 10,000 barrels per day to about 160,000 to 170,000.

■ **OCT. 23:** **Suncor Energy** delays construction of oilsands upgrader for \$20.6-billion Voyageur expansion by one year to 2013. Expansion boosts production from Suncor's oilsands operations near Fort McMurray to 550,000 bpd from 350,000.

■ **OCT. 23:** **Petro-Canada** mulls deferring upgrader for proposed \$21-billion Fort Hills oilsands project to save up to \$10 billion. Move would mean partners build mine and extraction plant and sell as much as 160,000 barrels a day raw bitumen into open market starting 2011. Decision before year-end.

■ **OCT. 23:** **Nexen Inc.** and **Opti Canada** delay decision on second phase of Long Lake oilsands project to sometime in 2009. Expansion would double production of synthetic crude to 120,000 barrels a day. First phase cost \$6.1 billion and is now just starting up.

■ **OCT. 23:** **Value Creation Group**: construction of \$4-billion Heartland upgrader near Edmonton reported halted. First phase would have processed 77,500 barrels a day of bitumen into synthetic crude. Privately held company has regulatory approval for plant with 260,000 bpd capacity.

■ **OCT. 22:** **Baker Hughes Inc.** expects about 200 oil and gas drilling rigs in North America would be idled during the fourth quarter because of the tighter credit markets and the declines in oil and gas prices.

— Reuters

## MARGIN CALLS

Canada a leader for credit cards

**FINANCE** • As worries build about U.S. consumer debt levels, analysts at Toronto-based rating agency DBRS say Canadians use fewer credit cards than their American counterparts and pay back more of their balances each month.

That makes the domestic credit card market very stable by almost any measure, they said at a briefing Thursday.

Loss rates on card balances remain about two percentage points lower in Canada than in the United States, DBRS analysts Jerry Marriott and Kevin Chiang said.

Unsecured loans, such as those offered by credit cards, have become an area of concern as economic growth slows. After defaulting on their home loans, some U.S. consumers are now expected to do the same with credit cards.

But in Canada, consumers tend to rack up less card debt, pay it back more consistently, and avoid delinquency, according to DBRS.

Wind power faces ethics code

**ENERGY** • New York's attorney general launched an ethics code Thursday that seeks to fight dirty business in the state's emerging wind-power-farm business.

"Clean energy requires clean government," Andrew Cuomo told reporters.

Wind power is a bustling business in upstate New York offering jobs in poor regions. About 450 wind turbines have been installed, and another 900 are planned.

But residents have charged that wind power companies have intimidated them and given gifts to officials in an effort to locate wind farms.

In July Cuomo had subpoenaed two wind companies, **First Wind**, based in Massachusetts, and **Noble Environmental Power LLC** based in Connecticut, seeking documents.

Among other things, the code bans wind companies from hiring municipal employees or their relatives, giving annual gifts of more than \$10, and knowingly using confidential information acquired by municipal officers in the course of their duties.

HERALD NEWS SERVICES

## HERALD ENERGY



Imperial Oil CEO Bruce March delivers record results on the back of strong prices

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ALBERTA RESIDENTIAL MULTIPLE LISTING SERVICE SALES			
	SEPT. '08	SEPT. '07	% CHANGE
UNIT SALES	5,182	4,371	18.6
AVERAGE PRICE	\$342,052	\$360,227	-5
NEW LISTINGS	10,590	11,927	-11.2
DOLLAR VOLUME	\$1.8 billion	\$1.6 billion	12.6

Source: Canadian Real Estate Association

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## FROM DI OILSANDS: Prices slide

Meanwhile, crude oil for December delivery dropped \$1.54 US to settle at \$65.96 a barrel on reports of a shrinking U.S. economy. UBS AG cut its 2009 forecast for oil prices by 43 per cent to \$60 from \$105 because the global economic slowdown may reduce demand.

Royal Dutch Shell owns Shell Canada, which is constructing a \$12.8-billion, 100,000-bpd expansion at the Athabasca Oil Sands Project. Shell has a 60 per cent stake — partners **Marathon Oil Corp.** and **Chevron Corp.** each have 20 per cent.

“Going forward, we do see evidence that the Alberta market is going to cool down as several competitors have delayed new projects,” said van der Veer, noting Shell will complete the current Athabasca expansion before deciding on the second. The decision had been scheduled to occur in 2009.

Shell wants to eventually ramp up production from the current 155,000 bpd to 770,000 barrels per day.

Shell reported crude and natural gas output in the third quarter fell 6.6 per cent to below three million barrels of oil equivalent a day for the first time in more than a decade.

Total production, including bitumen from oilsands, was 2.93 million barrels of oil equivalent a day, down from 3.14 million barrels a year earlier.

William Lacey, an analyst with FirstEnergy Capital, said there's no guarantee construction costs in the Fort McMurray area will fall, but cost inflation should slow down after delays in several major oilsands projects.

“It's not that there's a lack of work up there. There's still lots of work, it's just that it's not as frothy,” he said.

He added delays may improve labour efficiency rates if developers are convinced to co-ordinate construction phases with when labour is available.

Several projects have been delayed.

In September, **Petro-Canada** said the price of its 140,000-bpd Fort Hills mining project had risen by 50 per cent from a year earlier estimate to \$21 billion or \$150,000 per flowing barrel. It said later it may delay building the upgrader portion of the project.

**Suncor Energy** has extended completion of its \$20.6-billion Voyageur expansion by a year and partners **Nexen Inc.** and **OPTI Canada Inc.** have delayed until next year a decision on twinning of the \$6.1-billion Long Lake integrated thermal oilsands project.

In a report issued in August and based on a survey of members, the Fort McMurray-based Oil Sands Developers Group said it expected \$126 billion in construction capital to be expended on the oilsands between 2008 and 2012, compared with \$63 billion in the 11 years ending in 2007.

President Don Thompson said Thursday he didn't know how those numbers have changed, nor would he speculate on how the delays will affect the Fort McMurray labour force or general economy.

Escalating costs for everything from labour to steel are noted in a new report by the Calgary-based Canadian Energy Research Institute that shows new large-scale integrated mining projects will cost \$140,000 per flowing barrel of synthetic crude to construct and require oil prices north of \$100 Cdn (\$82.10 US) to ensure a 10 per cent rate of return to investors.

“I don't think there will be a stop (in development),” said CERI oil economist David McColl.

“Projects are just going to come on a little bit slower and that's not necessarily a bad thing.”

McColl said the delays and the cooling world economy have probably already lowered costs by as much as 10 per cent over the past month.

UBS Securities Canada Inc. in a report this week said integrated in-situ projects are the most appealing to investors, as they are economic at \$50 to \$60 US per barrel (depending on bitumen differentials) while non-upgraded SAGD projects are economic at prices of \$70 to \$80. Upgraded mining and Or-Crude SAGD projects (such as Long Lake) — require prices of roughly \$100 US per barrel before they begin to appear economic, UBS calculated.

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## UTILITIES

# TransAlta earnings slump

### Plant outages, rising costs pull down profits

DINA O'MEARA  
CALGARY HERALD

Unplanned outages at Alberta coal-fired power plants and high maintenance costs pulled down third-quarter earnings for **TransAlta Corp.**, disappointing analysts as returns came in lower than expected.

Net earnings for the quarter fell seven per cent to \$61 million, or 31 cents per share, from \$64 million, or 33 cents per share, the previous year.

Comparable earnings were 32 cents per share during the quarter on \$62 million, down from \$64 million. Analysts were expecting 34 cents per share.

Cash flow during the quarter rose to \$202 million, from \$156 million the prior year on higher earnings and an additional Alberta power purchase arrangement payment.

While its balance sheets are strong and it has stable investment-grade credit ratings, TransAlta will hold off reinvesting \$200 million of the \$303.5 million US in proceeds of its Mexican business into share buybacks, chief executive Steve Snyder said during a conference call.

Uncertain times call for a short-term bias to prudence, and conservation of cash and balance sheet capacity, Snyder told analysts.

“We're seeing this accumulation in the last few weeks of all the uncer-



Calgary Herald Archive

**TransAlta CEO Steve Snyder says he wants to “let markets settle down a little bit” before reassessing the costs of capital.**

tainty around liquidity in the market and what market conditions will be like going forward, and where all these costs of capital will settle out,” Snyder said. “Given all that, we found it prudent to sit back for a couple of weeks, let markets settle down a little bit, and we'll reassess in January.”

Directors of companies have to weigh the risk of being ultra conservative in these unusual and trying times, and not spend cash buying back stocks, said analyst Bob Hastings, with Canaccord Adams.

“It might be a wise thing to do during a credit crisis,” Hastings said. “It's very prudent to sit back and see what's happening.”

While disappointed in the third-quarter earnings, Hastings noted the

unplanned outages took their toll.

TransAlta also has been hit by an unplanned outage at the 450-megawatt Genesee 3 plant which started Oct. 10. The outage at the joint venture with **Epcor** is expected to cut \$13 million to \$16 million from TransAlta's fourth-quarter net income.

The company expects the unit to return to service by the end of November.

The outage is lifting power prices in Alberta, but TransAlta won't benefit from it because it's their plant, Hastings said.

Next year's outlook doesn't look too bright, either, he added. Alberta's economy is expected to continue to chill, pulling down power demand with it.

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## FROM DI HOUSING: Sales rise

House sales in Alberta were up by 18.6 per cent to 5,182 units during the month, the average sale price dipped by five per cent to \$342,052 and new listings dropped by 11.2 per cent to 10,590.

Nationally, MLS sales were off by 2.4 per cent compared with September 2007, new listings were up by 12.8 per cent and the average sale price fell by 5.4 per cent to \$289,916.

The balance between sales and new listings has stabilized in many provinces in recent months, the CREA said in its September report on the resale housing market in the country.

“This trend stands out most in Alberta, where a sharp drop in new listings and rising sales activity has firmed up the resale housing market considerably since the beginning of the year.”

Year-to-date until the end of September, sales in Alberta are down 19.6 per cent compared with the same nine months in 2007 while new listings increased by 7.4 per cent. The average MLS sale price for the year-to-date is down 0.3 per cent to \$355,513.

Across the country, year-to-date figures show sales off by 13 per cent, new listings up by 9.1 per cent and the average MLS sale price up by 1.2 per cent to \$307,738.

“A sharp drop in new listings and rising sales activity has firmed up the resale housing market considerably”

CMHC REPORT

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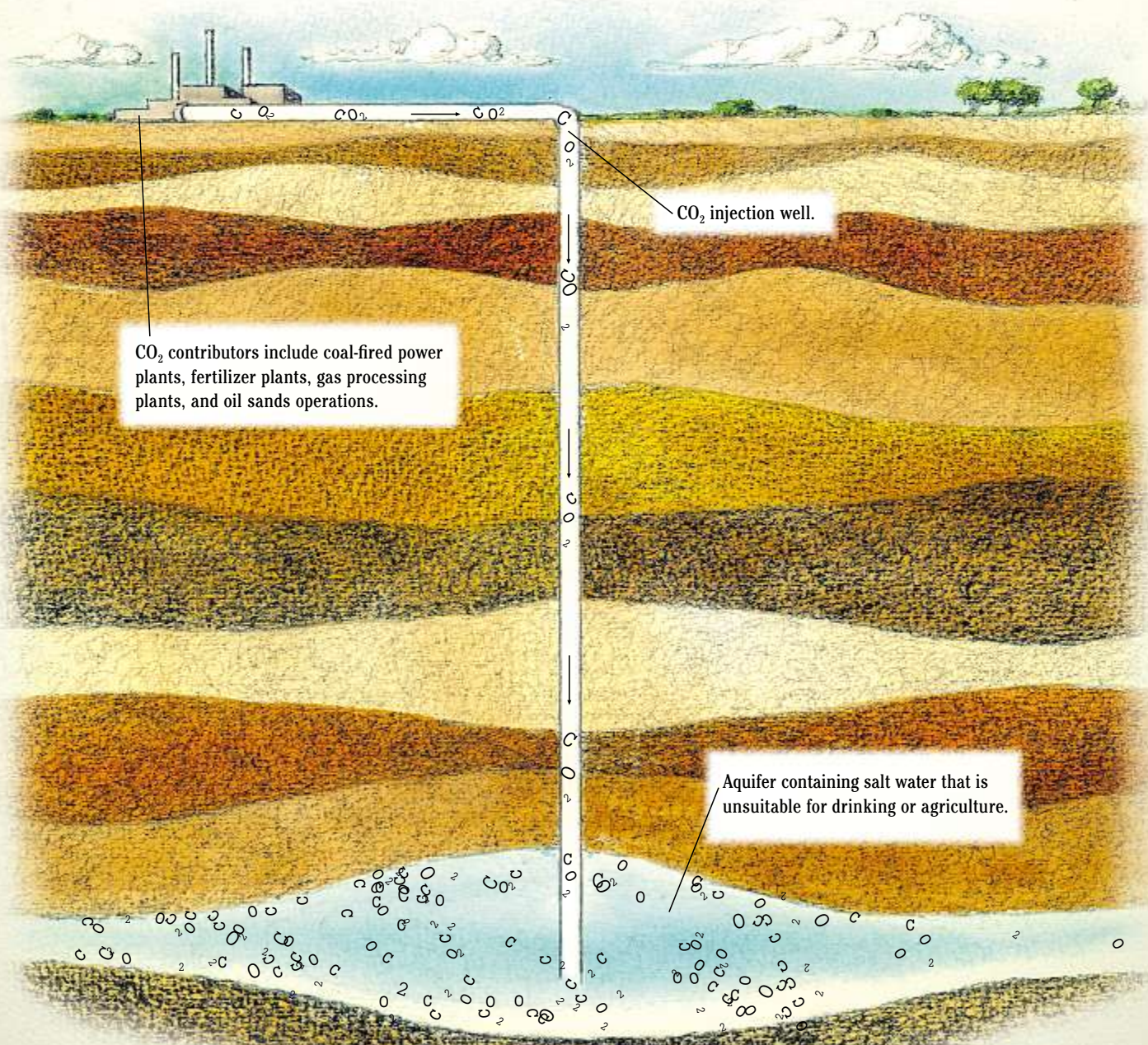
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