

Rona dismisses takeover talk

Quebec-based home-improvement chain says it's not up for sale, after interest from Lowe's gives stock a big boost, **B3**



BUSINESS & CAREERS

Market watch

S&P/TSX COMPOSITE
144.95 to 12,178.66 1.18%

CANADIAN DOLLAR
0.61¢ U.S. to 100.36 \$1 U.S. = \$0.9964

DOW JONES INDUSTRIALS
124.80 to 13,074.75 0.95%

OIL
\$2.54 U.S. a barrel to \$101.47

The ripple effect

If gas prices surge as high as \$1.60 a litre as some economists fear, it could derail Canada's economy

NIAMH SCALLAN
STAFF REPORTER

Ontario drivers caught at the pump with an empty gas tank Wednesday felt the pinch after an overnight gasoline price spike swept across much of the province.

Having jumped by about 12 per cent so far this year, Ontario's gas prices hovered at an average \$1.36 per litre on Wednesday — and forecasters expect prices at Canadian pumps will continue on an upward trend as geopolitical uncertainty,

speculation and reduced refining capacity continue to drive up prices.

"I've been predicting the sky would fall since last August," said En-Pro International Inc. analyst Roger McKnight, who predicted that Ontario gas prices would rise to between \$1.43 and \$1.47 per litre by April.

It's a forecast that would see wallet-

busting gas bills for Canadian drivers, one sure to rouse fury among cash-strapped commuters.

But it's also a prediction that, if sustained, could derail the economy, according to BMO Nesbitt Burns' senior economist Sal Guatieri.

GASOLINE continued on B2

City's condo frenzy reaches new heights

27 new projects launched just since January

SUSAN PIGG
BUSINESS REPORTER

If the recently launched INDX project in Toronto's financial district is any indication of the state of the city's condo market, then this year could prove to be even more bullish than last as the core continues to creep upward.

INDX is among some 27 new condo projects that have launched just since January across the GTA. That's up from 17 during the first three months of 2011, according to market research firm Urbanation — and that turned out to be a record year for the condo industry across the GTA, far outpacing all predictions.

With developers still heady from last year's 28,190 new sales, and 24,343 starts, there appears to be no letup in sight. INDX created a frenzy of interest during a VIP sales event last week.

CONDOS continued on B2

RBC rejects any deal with U.S. regulator

Bank calls wash-trade allegations, 'absurd, meritless'

MADHAVI ACHARYA-TOM YEW
BUSINESS REPORTER

The lawyer representing Royal Bank of Canada as it defends itself against allegations of improper stock trading says the bank would not be willing to accept a settlement deal.

"In serious matters people dialogue with each other, but unequivocally our position is that we didn't do anything wrong here," Arthur Hahn, a partner at Katten Muchin Rosenman LLP in Chicago said in an interview Wednesday.

RBC, Canada's largest bank, has been slapped with a lawsuit by the Commodity Futures Trading Commission alleging that a small group of bank executives operated a massive wash trading scheme, where various subsidiaries traded large blocks of shares among themselves at set times and at set prices, in order to reap Canadian tax credits.

RBC continued on B2

Solar power companies coping with slow burn

Province's green energy regime leaves equipment makers struggling

JOHN SPEARS
BUSINESS REPORTER

Don't be fooled by the civilized demeanour displayed by executives of Ontario's biggest solar energy equipment makers, an industry conference was told Wednesday.

"We seem to be amicable as we're sitting here, but we're trying to poison each other's coffee as soon as we get out of the room," Martin Pochtaruk of Heliene Canada told the Ontario Feed-in Tariff Forum.

The audience laughed. His fellow panellists — all competitors in the solar energy equipment business — smiled grimly.

To a man (the renewable energy business remains a guy's world), panellists agreed that making solar equipment in Ontario is a struggle.

Current manufacturing capacity in the province for solar panels is about 10 times annual demand.

SOLAR continued on B3

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» BUSINESS

Canada boosts housing oversight

Banking regulator to tighten rules for private mortgage insurers

BLOOMBERG NEWS

Canadian authorities are stepping up oversight of the nation's housing market even as lenders such as Bank of Nova Scotia warn that tougher rules could threaten the economic recovery.

The country's banking regulator, known as OSFI, said Wednesday it will boost supervision of private mortgage insurers while examining "emerging" risks to the financial system in several areas, including residential mortgages.

Policy-makers, including Finance

Minister Jim Flaherty, have said that parts of Canada's housing market have become overvalued as consumers add to record debt levels, encouraged by some of the lowest mortgage rates in decades. Flaherty said in his budget last week the government will enhance supervision of Canada Mortgage and Housing Corp., a federal agency that insures some mortgages.

Scotiabank chief executive officer Richard Waugh warned about making reforms to CMHC that could have "unintended consequences" and cause the market to slow too much. "Canada's model, which has been so successful, is let the banks manage and let the policy-makers set macroeconomic policy, monetary policy, and good strong reg-



Finance Minister Jim Flaherty says parts of Canada's housing market are overvalued.

ulatory supervision," Waugh said Wednesday in an interview.

Bank of Canada governor Mark Carney said in an April 2 speech that households relying on debt financing represents "the biggest domestic risk" to the economy. Some Canadians would be vulnerable to a sharp decline in housing prices, the central bank said in its latest Financial System Review.

Home resale prices rose 6.5 per cent in January from a year earlier,

according to the Teranet-National Bank Composite House Price Index. The S&P/Case-Shiller index of property values in 20 U.S. cities fell 3.8 per cent in January from a year earlier after dropping 4.1 per cent in December, a March 27 report from the group showed.

The country's resale housing market is overvalued by 10 per cent to 15 per cent and there is an oversupply of new homes, Toronto-Dominion Bank economist Sonya Gulati said in a March 22 report. "These excesses should be gradually unwound over 2013 and 2014, with higher interest rates the impetus for the adjustment," she said.

The Ottawa-based Office of the Superintendent of Financial Institutions said Wednesday it will pro-

duce a report for Flaherty on government guarantees on mortgage insurance. An OSFI spokeswoman, Leonie Roux, said the report would apply to private insurance providers such as Genworth MI Canada Inc. and not CMHC.

The federal government guarantees the full value of mortgage insurance offered by CMHC. The government guarantees 90 per cent of insurance offered by private-sector companies.

"Elevated household debt levels not only make households vulnerable to adverse shocks but continued low interest rates could encourage even higher household indebtedness," OSFI said in a planning document released on its website Wednesday.

'Live hard, play hard' crowd fuels demand

CONDOS from B1

Some 600 realtors showed up, causing a more than hour-long wait to get cars back from valet parking. Almost 70 per cent of the 798 units are already sold out.

Despite concerns — even by federal Finance Minister Jim Flaherty — that Toronto's condo market may be headed for a fall, buyers appear to be turning a deaf ear. That's because fundamentals of the market remain as solid as ever, developers say: strong immigration to the GTA, low interest rates and a growing desire to live close to work.

And you can't get much closer than the 54-storey INDX, a block away from First Canadian Place in the Bay and Adelaide area. The sleek tower, abutting the historic Graphic Arts Building, will feel more like a hotel than condo if all goes as planned with cocktail lounges, a golf putting ground and poker room, as well as its own movie theatre and shoeshine station.

"To characterize the market as crazy or a bubble is not an accurate description of where we're at in this city," says Andrew Hoffman, president of CentreCourt Developments, which has partnered with Lifetime Developments on the unique project — a rare residential tower steps from the banking district at less than half the price (\$250,000 to \$900,000) of the nearby Trump International condo units.

"As long as interest rates are low, our economy is strong and we have

people who want to live close to work, I think the condo market will continue to be strong."

INDX is among a flurry of projects being rushed to market sooner than usual, hoping to keep up momentum from last year's record level of sales and beat out competitors, especially in the core where some 14 projects have already launched and others are about to go to market, says Urbanation's Ben Myers.

They include Massey Tower by MOD Developments which will stretch 60 storeys into the sky over a historic beaux-arts style CIBC bank building on Yonge St. north of Queen that has been vacant since 1987.

Tridel is preparing to launch its much-anticipated 75-storey Ten York condo near the waterfront. And a host of other condo projects still soon start transforming the feel and foot traffic along Yonge St., says Myers.

Much of the demand is being driven by investors or young buyers backed with down payments by parents, he adds.

"I don't see the bubble everyone is talking about. We've seen no slowdown from investors," says realtor Roy Bhandari, part of a four-person Sotheby's International team that focuses largely on pre-construction condo sales and sold 45 units in INDX within days of the project being announced.

"If anything, people are more eager right now. They still see (the Toronto condo market) as a great place to put their money, especially



SUSAN PIGG/TORONTO STAR

CentreCourt Developments president Andrew Hoffman, left, and Lifetime Developments vice-president Brian Brown have partnered on the new 54-storey INDX project near Adelaide and Bay Sts.

when you weigh it against other investments like stocks and bonds."

Most of the investors Sotheby's sees are immigrants now living in Canada, looking to hold onto units for at least two years and rent them out, even if the escalating costs and shrinking size of condos is making it harder to break even on rents.

As what Hoffman calls the "live hard, play hard" crowd looks increasingly for downtown addresses within walking or subway distance of work, demand for condos, to rent

or buy, is actually close to outstripping supply, despite the condo boom, says Bhandari.

Downtown realtor Mark Savel says he's seeing more bidding wars for prime downtown rental condos, even at \$1,900 a month.

"There's a sense that buying a condo downtown is almost a recession-proof investment," because demand to live downtown is so strong now, says Savel.

"I don't see why we can't handle another record year."

HOME PRICES SURGE

SUSAN PIGG
BUSINESS REPORTER

The average GTA house price now hovers at over half a million dollars, up 10.5 per cent from March of last year.

Low interest rates and a shortage of homes for sale continue to propel prices skyward and fuel bidding wars that have become virtually de rigueur in many Toronto neighbourhoods.

That combination of factors helped push prices to an average \$504,117 across the GTA and to almost \$550,000 in the Toronto 416 regions in March, up from \$456,234 and \$498,050 respectively a year ago, according to the Toronto Real Estate Board analysis of almost 10,000 sales across the region in March. Prices in the 905 areas averaged \$477,006, up from \$428,155 last March.

The price escalations are showing no signs of a letup, given that the spring house-buying spree started early this year and has yet to hit its peak.

Even veteran realtors are shaking their heads as GTA home prices continue a climb that has been unstoppable over more than a decade, even through the recent recession and massive global economic uncertainty. Inventory remains a problem and has realtors concerned why so few new listings are hitting the market.

"The huge shortage of listings, especially under \$700,000, has made this early spring market crazy," says Toronto realtor Desmond Brown. "And with the threat of interest rates going up, people are in a bit of a panic to buy and close before their 120-day low mortgage rate commitments expire."

New listings actually increased in March over a year ago, but aren't keeping up with demand, says Jason Mercer, senior manager of market analysis for the Toronto Real Estate Board.

RBC had 'green light' on trades, lawyer says

RBC from B1

The subsidiaries are alleged to have been located in Europe, Toronto, the Bahamas and Cayman Islands.

The CFTC also alleges that RBC executives gave misleading and false statements when exchange officials asked about the trades.

RBC has called the allegations "absurd" and "meritless." On Tuesday, chief executive officer Gord Nixon weighed in, saying the bank will vigorously defend itself from the "unwarranted" allegations.

Sources familiar with the proceedings say that RBC was offered a chance to settle and pay a cash penalty, but declined, saying it did nothing wrong.

"We have a strong case here and look forward to presenting it to the judge," Bart Chilton, a commissioner with the CFTC, told the *Star*.

He declined to comment on whether the commission offered RBC a settlement deal.

The court documents, filed in New York on Monday, allege that RBC's aim was to hold certain securities to gain Canadian tax credits, and that it sold futures contracts on the shares to mitigate the risk of the stock prices fluctuating during that time.

RBC says that it informed the regulator and the exchange, OneChicago, as far back as 2005 that it was

making large block trades between various subsidiaries.

"We called the exchange and fully detailed everything we were doing and we wanted to make sure this is OK. We had essentially a green light. We proceeded to do these exact trades as we described them, all the way through 2010," Hahn said.

"They now would like to take a different position. Our view is that's fine. Change the rule, but don't bring in enforcement action after the fact."

According to the court documents, there were two main types of transactions. The RBC Canadian Transit group in Toronto sold derivatives known as narrow-based index futures to RBC Europe Ltd. in London. These offices also bought and sold shares of the underlying securities. Profits and losses between the two offices were consolidated and the Canadian arm reaped the tax credit.

The other trades involved RBC Caribbean in the Bahamas and Cayman Islands selling single stock futures contracts to RBC Capital Markets Arbitrage, with offices in New York. These contracts were timed to expire just after dividends were collected to capture the tax benefit.

The lawsuit alleges that the scheme was worth hundreds of millions of dollars, though it does not give an exact value.

Trade with struggling U.S. could take hit, says economist

GASOLINE from B1

Guatieri said an increase to \$1.60 per litre could see Canada's economic growth reduced by more than a percentage point over the near next year — a significant amount given that the country's current growth rate hovers at 2.5 per cent. And unemployment could rise to 8 per cent, he said.

"It's something we're clearly concerned about. Its one of the bigger risks in our economic outlook," Guatieri said. "We'll have to see how the situation unfolds."

The impact of rising gas prices is already unfolding in farmers' fields, manufacturing plants, retail shops and households across Canada.

FARMS

As a cattle farmer near Sault Ste. Marie, Ont., Ron Bonnett knows first-hand the effects of skyrocketing fuel costs on agriculture.

"If we can avoid starting a tractor, we avoid starting a tractor," said Bonnett, president of the Canadian Federation of Agriculture.

Fuel prices increased by 123 per cent between 2003 and 2010, according to a March 2012 Agriculture and Agri-Food Canada report. For every cent-per-litre increase, farmers' annual machinery fuel bill increases by about \$26 million.

Bonnett said farmers have begun to adopt fuel-saving techniques — such as "no-till planting," reducing

the number of passes across the field during planting season. But trucking goods in and out of farms must be taken into account, he said.

"Eventually, that's going to have to come out of the marketplace so we'll see increases in food prices," Bonnett said.

RETAILERS

Some businesses feel "blindsided" by rising fuel costs, which affect shipping and consumer behaviour, says Stephen O'Keefe, the Retail Council of Canada's vice-president of operations. Others have plans that mitigate temporary spikes.

O'Keefe said businesses have also seen falling profits as consumers, forced to spend more at the gas pump, reign in their spending.

"If we have to spend more gasoline, it leaves less money to buy other things."

CONSUMERS

But will they tighten their belts?

Benjamin Tal, CIBC World Markets Inc. deputy chief economist, says consumers have not changed consumption behaviour during previous gas price spikes.

For Guatieri, the major troubles lie in a weakened U.S. economy.

"When gas prices go up, the U.S. spends less, which results in slower growth in Canada. If we get above \$1.60, that could have a material negative impact on the economy and raise unemployment," he said.

The Canadian Real Estate Association



William Johnston

The Canadian Real Estate Association (CREA) is pleased to announce the election of William Johnston as a Director-at-Large to the CREA Board of Directors.

Bill has been a REALTOR® since 1982 and is a Broker with Bosley Real Estate. He served as a Director with the Toronto Real Estate Board (TREB) in 1999, 2002-2004 & 2006-2012. Bill is the Past Vice-Chair of Discipline for the Real Estate Council of Ontario; Past Chair of Government Relations, By-Laws, Finance, MLS®, Professional Standards & Education Committees with TREB. He was twice awarded the Real Estate Institute of Canada's Morguard Literary Award. Bill was called to the Ontario Bar in 1982 and was President of TREB in 2010-2011.

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