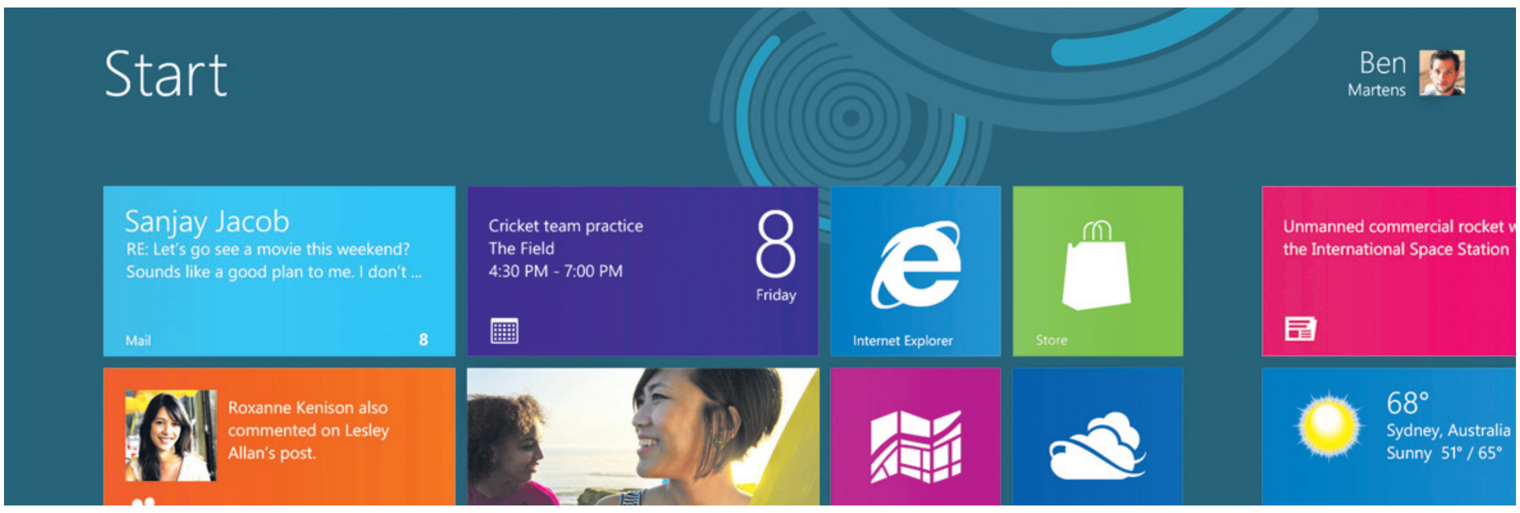

MICROSOFT SEARCHES FOR A ONE-SIZE-FITS-ALL SOLUTION

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THE GLOBE AND MAIL
WEDNESDAY, MAY 8, 2013
SECTION B

Report on Business

K J HARRISON & PARTNERS INC.
INVESTORS
DISCIPLINED INVESTING, DEPENDABLE RESULTS
kjharrison.com

EDITOR: DEREK DeCLOET

S&P/TSX	DOW	S&P 500	DOLLAR	GOLD	OIL	GCAN 10-YR
12,464.11 (+10.19)	15,056.20 (+87.31)	1,625.96 (+8.46)	99.56 (+0.24)	1,448.80 (-19.20)	95.62 (-0.54)	1.817% (+0.022)

COMPETITION

Fears of fare war hit airlines

WestJet's plans to add capacity send shiver through sector – even as record results roll in

GUY DIXON TORONTO
BRENT JANG VANCOUVER

WestJet Airlines Ltd. is heading to the runway with an expanded fleet, raising concerns that the surge in capacity will lead to a renewed industry price war.

The Calgary-based carrier will launch its regional subsidiary WestJet Encore in late June, just as Air Canada introduces its new low-cost leisure carrier Rouge this summer.

Such extra capacity has the potential to corrode profit margins, if airlines are unable to fill the extra seats or have to slash ticket prices to do so.

Analysts pushed the company on the capacity question during a first-quarter conference call, in which WestJet unveiled record earnings.

Despite those results, the share price of WestJet declined more than 7 per cent, down $1.85 to $22.87 Tuesday on the Toronto Stock Exchange. Air Canada's stock price also fell sharply, off 7.6 per cent.

WestJet, Page 12

GLOBAL ECONOMY

DOWN UNDER'S DOWNTURN

A strong currency, triple-A credit rating and a commodities-heavy economy – Australia looks a lot like us. But as **Tavia Grant** reports, the country's cooling growth and Tuesday's surprise interest-rate cut doesn't mean Canada will follow suit. **PAGE 13**

INVESTING

In Toronto's crowded skyline, Peter Munk sees gold

TARA PERKINS
REAL ESTATE REPORTER

Peter Munk says he's largely out of the real estate game, but he is putting his money in one surprising spot – Toronto condos.

The 85-year-old founder and chairman of **Barrick Gold Corp.** – and former head of real estate giant Trizec Properties, which was sold to Brookfield Properties Corp. in 2006 for more than $5-billion – is now spending some of his personal wealth on financing condo projects in Canada's most populous city.

It's a contrarian move. Policy makers in Ottawa, including Finance Minister Jim Flaherty and Bank of Canada Governor Mark Carney, have suggested that they think too many condos are being built in Toronto's core.

Research firm Urbanation Inc. said Monday that 2,728 new condos were sold in the city during the first three months of this year, down 29 per cent from the prior quarter and 55 per cent from the first quarter of 2012. Some developers have shelved project plans amid the sales downturn, and the number of new buildings that opened in the first quarter of this year was the lowest since the third quarter of 2009. The number of unsold units in projects that are going ahead has climbed to 18,845, up 21 per cent from a year ago.

But Mr. Munk, who believes in Toronto's long-term future, is unfazed.

"That's the wonderful thing about the markets; if all of us had the same view, we couldn't afford to buy anything," Mr. Munk said in an interview. "It's wonderful to have opposing views."

Condos, Page 12

BROADCASTING

Cable's channel changer: The fight to be Netflix North

STEVE LADURANTAYE
MEDIA REPORTER

Canadian television providers are planning to cut their own cords, with several of the country's largest media companies developing subscription-based services to compete with online rivals such as **Netflix Inc.**

The streaming video service – which now has close to two million Canadian subscribers paying $7.99 a month for access – is facing intensifying competition in the United States by well-funded cable and technology companies that are trying to replicate Netflix's success by offering popular titles over the Internet for a low cost.

But that competition has been slow to materialize in Canada, which has helped Netflix almost double its number of subscribers here in the last year.

That's about to change: **Rogers Communications Inc.** is developing a service that would give subscribers access to movies and television shows and is also considering developing television series solely for digital distribution to enhance the product's appeal.

Rogers, Page 12

MARKET WATCH

The Dow at 15,000

Despite another record for the index, investor confidence remains lukewarm.
Page 14

Investing Q&A

John Heinzl takes your questions in a live chat today at noon (ET).
tgam.ca/DqLX

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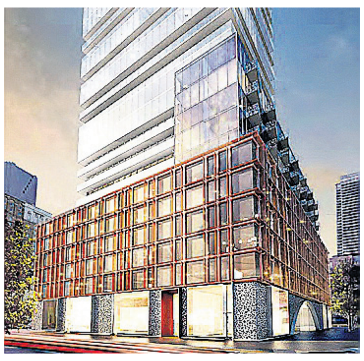
CD CAPITAL'S PROJECTS

TORONTO

155 Redpath

A 470-unit residential condominium project located in the Yonge-Eglinton neighbourhood.



Sixty Colborne

A 300-unit residential condominium project, with retail space on the ground level, located in the historic St. Lawrence Market area adjacent to the downtown business core.

MONTREAL

Ma Condos

A 150-unit residential condominium project located between two green spaces 10 minutes from downtown Montreal and served by two Métro stations.

BUCHAREST

Victoria City Centre

A 350,000-square-foot shopping centre in northwest Bucharest with direct subway access; it also has 1,900 parking spaces.

HUNGARY & ROMANIA

EuroMiniStorage

2,000-unit, self-storage facilities that CD Capital says have "set the standard for self-storage in Hungary and Romania."

Source: CD Capital

FROM PAGE 1

Condos: 'For me, it's a significant amount of money for real estate'

"I'm not particularly investing in condo projects, I'm investing with a man who I think is absolutely tops," he added.

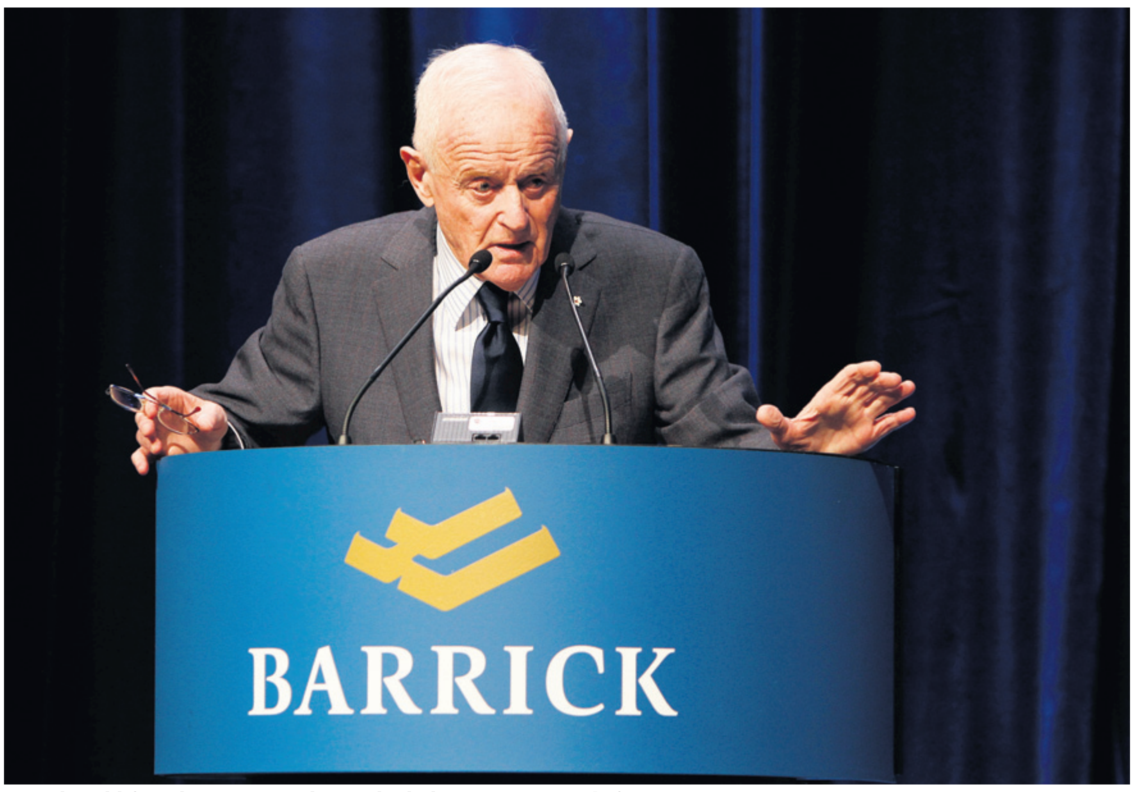
The developer that Mr. Munk is backing is CD Capital, headed by Todd Cowan and Jordan Dermer. CD Capital's projects include the 300-unit Sixty Colborne project near the St. Lawrence Market, which is yet to be built but launched last year, and 155 Redpath, near the intersection of Yonge Street and Eglinton Avenue, which is just launching. CD Capital has teamed up with Freed Developments and more projects are on the way. Mr. Munk is one of a number of wealthy individuals providing financing for the buildings.

Mr. Cowan and Mr. Dermer were both previously executives at Trizec Properties and went on to be top executives at a joint venture it created, TriGranit Development, whose major shareholders included Mr. Munk and British financier Nathaniel Rothschild. Mr. Cowan became CEO of TriGranit, which developed more than 10 million square feet of properties in Central and Eastern Europe from 1997 to 2006, when he and Mr. Dermer left the company and returned to Canada to start CD Capital.

Mr. Munk declined to say how much he has invested in CD Capital buildings. "For me, it's a significant amount of money for real estate," he said. "I'm not really a real estate investor."

"I can't recall having met a young executive with the potential and track record, at his age, of Todd Cowan," Mr. Munk added. "When he says condo, I invest in condo."

Mr. Cowan was 28 when he moved from Canada to Budapest in 1996 to help get TriGranit off the ground. The company continues to be one of the largest fully integrated real estate firms in Europe. Mr. Cowan, who took a year off when he moved back to Canada, said he and Mr. Dermer wanted to raise their families in this country, and felt that they could put



Barrick Gold founder Peter Munk says he believes in Toronto's future. FERNANDO MORALES/THE GLOBE AND MAIL

their experience to use – along with the relationships they had developed with people such as Mr. Munk and the Rothschilds – to work at home.

"The vision is to turn CD Capital into one of Canada's greatest developers over the next 10 to 20 years," Mr. Cowan said.

While Toronto condo buildings are no longer selling out overnight, the market's long-term prospects are strong, he and Mr. Dermer said. "We think the city is backed by a very strong rental market and continued inward migration," Mr. Dermer said. He added that the Yonge and Eglinton area, which will be served by a new light-rail transit line, is ripe for development.

But other investors are increasingly reluctant to make the bet that Mr. Munk is making. Toronto has more high-rise real estate buildings on the go than any other city in North America and with nearly 60,000 units under construction, activity is at a record high, said Canadian Imperial Bank of Commerce economist Benjamin Tal.

He estimates that about 31,000 households will form annually in the Greater Toronto Area over the next few years; if that's the case, then the projected increase in homes in the region would suggest overbuilding, he said.

Mr. Tal expects that the market will face its real test in 2014, when as many as 35,000 units could be completed, up from the average over the past decade of about 15,000. That would be uncharted territory, he said.

However, he expects that many projects in the city will wind up being delayed. That's in part because "financing is becoming an issue with the rapid pace of development causing many lenders to think twice before extending credit."

He estimates that condo developers are currently facing a $2-billion to $3-billion financing gap, one that's mainly having an impact on second-tier players and luxury condo developers. "The biggest risk that we are facing is that those investors that have been buying condominiums, given the fact they won't be able to see the same increase in rent, maybe they will bail out," Mr. Tal said.

For his part, Mr. Munk, a jet-setter who is behind the development of the world's largest superyacht marina at Porto Montenegro, said he also believes in Toronto's future.

"Look at Beijing, look at all the money. I've got friends who have got kids there, tremendous job opportunities, and the kids will come back because they can't breathe the air," he said. "You go to London – one of my daughters lives there, and it's so overpriced that it's sick-making. New York has got tremendous attractions, but it's also got a hell of a lot of problems. Look at the traffic – I have an office there and you can't go across.

"Toronto is absolutely unique. It's not flawless, but it's so much better than the possible alternatives …

"I will die here."

PETER MUNK'S REAL ESTATE ADVENTURES

For someone who says he's not a real estate guy, Peter Munk has built an extensive career in the property market. Here are some of his ventures:

Big return

Mr. Munk's holding company acquired real estate firm Trizec Corp. for $750-million in 1994, followed by an aggressive buying spree that included the purchase of Chicago's Sears Tower. In 2002, the company renamed itself Trizec Properties and became a real estate income trust. Four years later, it was purchased for $4.8-billion (U.S.) by Brookfield Properties Corp. and buyout firm Blackstone Group. At the time, Trizec's portfolio included 61 U.S. office towers. Mr. Munk netted more than $320-million (Canadian) from the sale.

Exotic locales

Mr. Munk is no stranger to ventures in far-flung locations. He and business partner David Gilmour built a hotel empire in the South Pacific. In 1981, Mr. Munk and his partners sold Southern Pacific Hotel Corp. for $130-million (U.S.).

The next Monaco

Mr. Munk has a vision for Tivat, a coastal town in Montenegro: He wants to make it the next Monaco. He and a group of investors are transforming the industrial port into a luxury marina/playground for the superrich known as Porto Montenegro, where weekly rates for apartments range between €850 and €10,000 ($1,100 to $13,000).

Matt Lundy

FROM PAGE 1

Rogers: Traditional TV a key driver of profit

The product could compete with similar offerings from companies such as Bell Media and Videotron, which has already developed and marketed a French-language Netflix alternative available in Quebec and Ontario.

The companies don't intend to get out of traditional television, which is a key driver of profits with 12 million Canadian households paying for some level of service. But they want to sign up former subscribers who have opted out of traditional subscription packages while at the same time reinventing themselves for a more digital future.

"It's my belief that all major [broadcasters] will roll out a Netflix competitor," said David Purdy, vice-president of digital television products at Rogers. "It's a common strategy to try and figure out how to roll out products that allow viewers to binge watch and to offer all-you-can-eat movie services."

In the United States, a handful of companies are looking to steal business from Netflix with their own offerings. Amazon.com has launched a video-streaming service, joining television and telecommunications powerhouses such as Comcast and Verizon. There is speculation that as more competitors fight to secure rights to online programming, the price of such services will increase exponentially and make it more difficult for low-cost offerings such as Netflix to compete.

> *It's my belief that all major [broadcasters] will roll out a Netflix competitor.*
>
> **David Purdy**
> *Rogers' vice-president of digital television products*

"Our underlying fundamental thesis is there will be more than one Internet TV competitor," Evercore analyst Alan Gould said. "Internet TV is growing rapidly and Netflix is the clear leader in the market; however, we are highly skeptical of Netflix reaching even the low end of the 60-90 million subscribers that management has projected [worldwide]."

Netflix had no comment.

Rogers already offers its cable subscribers online access to much of its programming. But it wants to develop a separate product that would allow those who don't subscribe to its cable package to pay for vast collections of movies and archived seasons of popular television shows. It could compete with Netflix to buy Canadian rights in some cases, or share rights when Netflix isn't the exclusive carrier.

Companies such as **BCE Inc.**, Rogers and Videotron are particularly well suited to launch services because they also own television stations, making it easier for them to access exclusive content online.

Mr. Purdy spoke about the project in the midst of hearings into BCE's $3-billion purchase of **Astral Media Inc.** Executives from both BCE and Astral argued to the CRTC that the deal was necessary for the companies to compete with so called "over-the-top" providers such as Netflix.

Cord cutting – in which customers cancel their subscription in favour of online alternatives – is increasing in Canada, but is still in its infancy compared to countries such as the United States. But the cable and satellite companies are increasingly concerned that customers will find content elsewhere, and they want to develop their own alternatives before customers can walk away and spend their money with a competitor.

The companies argue that Canadian companies must be able to compete, because a portion of the money they generate from subscribers goes back to Canadian productions. BCE has previously said it intended to develop a Canadian Netflix, but needs to buy Astral to make it happen.

"Netflix is just one prominent example of the kind of scale being brought to bear on Canada's industry, challenges to our business that we believe we must meet head-on by expanding our own scope and scale," said Astral chief executive officer Ian Greenberg. "That's what this transaction enables."

FROM PAGE 1

WestJet: Fare wars are feared

WestJet is stoutly defending its expansion, with chief executive officer Gregg Saretsky saying the economy will be strong enough to support the additional capacity. "So we're putting a little bit of our foot to the accelerator because of the continued strong macroeconomic environment and the results that we're enjoying," Mr. Saretsky said during a conference call on its better-than-expected first-quarter results.

He said the airline ran its planes too full last year, giving up potential customers it could have won had there been more capacity. "We're going to do whatever we can to bring the right amount of capacity to the marketplace, and be a fierce competitor ourselves."

Mr. Saretsky said the capacity WestJet is bringing to the market should enable the airline to still generate a sustainable 12-per-cent return on invested capital.

Air Canada and WestJet are in growth mode. WestJet's seat capacity climbed to two billion available seat miles (ASMs) last month, up 7.4 per cent from a year earlier. Air Canada's year-over-year capacity for April rose 1 per cent to 5.3 billion ASMs across its system worldwide, with domestic ASMs up 3 per cent.

Both airlines have been posting impressive traffic numbers. WestJet's April load factor, or the proportion of seats filled by paying customers, was 82.7 per cent, while Air Canada enjoyed an April load factor of 82.1 per cent.

As Montreal-based Air Canada gears up to attract leisure travellers, notably through starting Rouge, the extra capacity is expected to put downward pressure on ticket prices. A familiar pattern has emerged in the airline industry – just as carriers find a measure of financial health through higher ticket prices, they then aim to increase market share by adding seat capacity, effectively driving down airfares and squeezing already thin margins for operations.

WestJet's first-quarter profit was $91.1-million or 68 cents a share, compared with $68.3-million or 49 cents in the same period a year ago, better than most analysts had expected.

WestJet executives said they believe that the current second quarter will also be strong, despite the added cost of more seats flown with the new WestJet Encore. But the added capacity has some observers worried about the prospects for further strong results.

"So investors are thinking, 'Well, your load factor is falling, but you've got this huge amount of capacity growth. Are you going to be able to fill that capacity profitably?' " said Robert Kokonis, president of aviation consulting firm AirTrav Inc., who also said the selloff in WestJet stock was an overreaction.

With files from The Canadian Press

WestJet (WJA)
Close: $22.87, down $1.85