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SEPTEMBER 10, 2007

THE BEST PLACES TO DO BUSINESS IN CANADA



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Cover

Low business operating costs and solid growth place

THE BEST PLACES TO DO BUSINESS IN CANADA



FOR A COMPLETE LIST OF THE TOP 40 PLACES TO DO BUSINESS IN CANADA, PLEASE TURN TO PAGE 32.

Sherbrooke at the very top of our sixth annual ranking

1

SHERBROOKE, QUE.

ANNUAL OPERATING COSTS (\$MIL): 29.44
COST OF LIVING INDEX: 64.3 BUILDING PERMIT
GROWTH (%): 23.81 UNEMPLOYMENT RATE
CHANGE (%): -21.9 CRIME RATE PER 100,000
PEOPLE (2006): 5,491

"So, uh, how do I get to Sherbrooke?"

For years, that was the standard question from site location consultants sent to check out this small industrial city 90 minutes east of Montreal. But after a decade of running the city's economic development agency, the Société de Développement Économique de Sherbrooke, Pierre Dagenais was tired of hearing it. So he made a rather bold move: he created Air Sherbrooke, with a daily weekday flight to Pearson International Airport. Sherbrooke is now just 90 minutes from Bay Street, and no one need worry about directions. "Quick transportation from Toronto is often the

condition to being short-listed on bids for industrial location," says Dagenais.

The decision was the culmination of a remarkable turnaround for the self-styled "Queen" of the Eastern Townships region. "Sherbrooke went through some tough times in the last 20 years," says Quebec Premier Jean Charest, a Sherbrooke native who has served as either the city's MP or MNA for 23 years. "Its old base in textile, shoe and garment just vanished." Yet, today, Sherbrooke tops *Canadian Business's* sixth annual ranking of the best places to set up a business. Commercial

building permits rose to 78 from 63 last year, with many Sherbrooke companies expanding. The city is the second-most export-intensive area in Quebec, and does a lot of business with the northeastern United States. For example, Charles Rivers Laboratories of Wilmington, Mass., recently announced it's moving to Sherbrooke, bringing an initial 200 jobs in high-skilled clinical testing and lab animal farming. And the city has managed to keep unemployment at 5.7%, far below the Quebec average.

While Sherbrooke's traditional industrial base floundered over the past several decades, the city has steadily created a knowledge-based economy to replace it. The building blocks were already there. Sherbrooke has eight post-secondary institutions: two universities (Sherbrooke and Bishop's), three colleges, a teaching hospital, plus a provincial research institute in geriatrics and a federal experimental farm. This gives Sherbrooke one of the highest concentrations of brains, students and R&D on the continent, and contributes a billion dollars to the local economy. Oddly enough, Sherbrooke has Quebec's highest dropout rate—about 32%—but also the province's highest per capita ratio



ST. JOHN'S, Nfld.

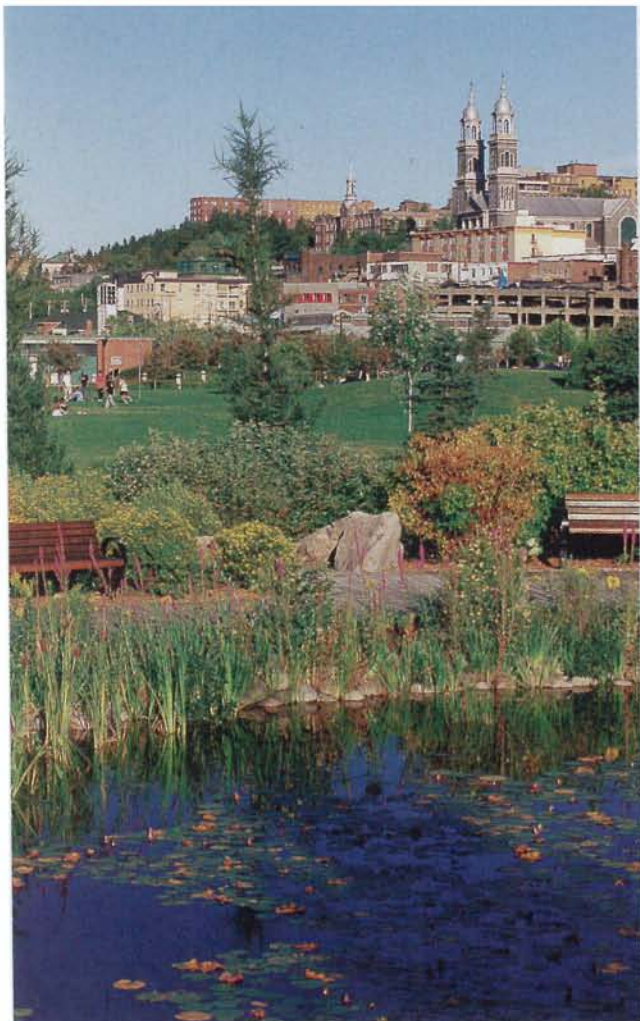


MONCTON, N.B.
SHERBROOKE, QUE.



WINDSOR, Ont.





of PhDs, at 6.7 per 1,000 people. "The economy is changing, and the big issue is how we can drive our transformation into a knowledge economy, rather than just sit on the back seat," says Mayor Jean Perrault, who was behind the Sherbrooke Summit of May 2007, the culmination of a year spent thinking about how to drive the city's economy into high gear.

"The days when the city and the university, as well as the English- and the French-speakers, ignored each other are over," says Bruno-Marie Béchard, Sherbrooke University's hyperactive rector, who is in daily contact with the mayor of Sherbrooke. "Our model is not Montreal, Toronto or Calgary, but Stanford or Oxford."

Yet, as Charles Rivers Laboratories no doubt realized, Sherbrooke is not Boston, with that city's high cost of living. While Sherbrooke is experiencing significant economic growth in the knowledge industries, it also has the lowest cost of living and second-lowest business operating costs in the country. Since the early 1990s, about two dozen university spinoffs have been created in two industrial parks dedicated to pharmacology and biotech, a total investment of \$200 million that created more than 500

jobs. Sherbrooke University earns the second-highest gross revenue earnings from patents—about \$10 million per year—of all Canadian universities, putting it ahead of highly regarded Toronto, McGill and Waterloo universities. More than 200 cellphone companies worldwide now pay royalties to Sherbrooke for its patented voice-compression technology.

In 2006, the university created its own industrial park dedicated to joint ventures with businesses. Within a year, it announced it was investing \$60 million into creating two research centres and 200 master's- and PhD-level jobs. One result has Bombardier Recreational Products teaming up with the university to create a 3,900-square-metre research centre dedicated entirely to rethinking the motors and transmissions of snowmobiles and jet-boats, as well as their environmental impact, from fuel consumption to noise. "We have five years to develop new ideas," says François Charron, the CEO of the BRP-UdeS Advanced Technologies Centre, whose team spent most of 2007 working on computer models while waiting to move into their new lab.

The town has a lot going for it: venture

capital, cheap land and housing, kindergarten-to-university education in both French and English, a surprisingly lively immigrant community, great access to the outdoors, and even expanded wireless Internet access throughout the city. "But this is not enough," says Dagenais, who is shifting the emphasis of his work to catering to the needs of established businesses rather than spending most of his time attracting new ones. In 2007, Sherbrooke's economic development agency was one of a group of partners that gathered about \$33 million to help a dozen local companies buy state-of-the-art machinery and equipment. "The Chinese will hurt us if we let them buy the best equipment. That's where the race is."

Charest, for one, believes Sherbrooke is one university town that can succeed in generating technology transfers and local entrepreneurship, pointing to the recent creation of a Sherbrooke University research chair in ethanol production as proof. The \$25-million project will create and run two pilot plants in the area. "The money came to Sherbrooke because the expertise was in Sherbrooke," says Charest. "Money follows brains."

JEAN-BENOÎT NADEAU



(Clockwise from far left) Sherbrooke is shedding its industrial past for a knowledge-based economy; Abbotsford sits nestled against the Rockies; construction forges ahead on the \$355-million Abbotsford Regional Hospital and Cancer Centre; GM's plant in Oshawa is one of the best in North America; Charlottetown can boast a picturesque harbour and low business operating costs

BEST CITIES

generally more apt to report non-violent, property-related crimes than those in larger metropolitan areas. He also points out the city has put more emphasis on crimes committed by young people, and drug-related crimes. "If you put more resources into fighting a particular type of crime, you're going to see the figures go up," he says.

Certainly, strolling the quaint streets of downtown Charlottetown, it's hard to see any signs of urban distress. "There's a lot of effort being put into making the most of our natural competitive advantages and quality of life," says Ron Waite, general manager of the Charlottetown Area Development Corp., as he walks along former grimy port and rail lands that have been redeveloped into attractive commercial, residential and tourist space. He says the city is also embracing sectors such as bioscience and financial services, and selling itself as a cost-effective "near-shore" outpost for businesses wanting to expand globally.

One such company is IT services giant CGI Group Inc., which in March 2006 opened the first satellite of its Halifax-based Atlantic Global Delivery Center in town, providing IT services for international clients and creating 150 high-paying jobs. Cecil Smith, senior vice-president of Atlantic Canada for CGI, says the company is taking advantage of Charlottetown's lower business-cost structure, as well as the potential for attracting educated and motivated employees to the city, lured by the "superior quality of life" and lower cost of living.

Another business sector showing significant growth is bioscience, with both public and private investment flowing into facilities such as the National Research Council Institute for Nutrisciences and Health, the University of P.E.I. and the Atlantic Veterinary College, and Agriculture Canada's Research Centre. Rory Francis, executive director of industry group P.E.I. BioAlliance, says Charlottetown is developing a "critical mass" of talent and facilities in bioscience that will spur even more growth. There are provincial and municipal tax incentives for the bioscience sector, he says, as well as personal tax breaks for people with specialized skills who take jobs in knowledge-based industries.

One home-grown success story is Diagnostic Chemicals Ltd. Operating since

1970, the company manufactures hundreds of chemical reagents and medical diagnostic products under its own brand and for others under contract. CEO Ron Keefe says P.E.I.'s proximity to major eastern seaboard markets such as Boston and New York is a definite plus, especially since the construction of Confederation Bridge linked the province to New Brunswick. "Charlottetown may be on an island," says Keefe, "but it's certainly not isolated."

ZENA OLJNYK



9 OSHAWA, ONT.

ANNUAL OPERATING COSTS (\$/ML): 34.79
COST OF LIVING INDEX: 73.6 BUILDING PERMIT
GROWTH (%): 2.8 UNEMPLOYMENT RATE
CHANGE (%): -3.4 CRIME RATE PER 100,000
PEOPLE (2006): 4,890

Canada's Motor City ranks as the best place to set a business in Ontario—mostly because of what it isn't. It's not Toronto, with that city's high costs of doing business and living. Unlike cities in the west, it's not home to much crime. And despite very modest growth numbers, at least they're not flat or declining, as they are in other places in the province.

Indeed, there are very few bright spots at the moment in Ontario. That's not too surprising. Its main engine, Toronto, is on life support, reduced to begging for huge chunks of change from upper governments. Jobs in the all-important manufacturing sector are disappearing. And a looming U.S. meltdown can only damage the key automobile and steel industries even further.

But things could be a lot worse. Oshawa's main employer, General Motors of Canada, saved 2,700 jobs last year when it decided to build the Camaro in town after the Canadian Auto Workers agreed to cost-saving measures. There were rumours that part of the Oshawa plant was going to close, even though it's the most productive automaker in North America. In a town of roughly 142,000, such a loss would have been an economy and morale killer.

Despite GM's often tumultuous relationship with the city, the company's presence has created a lot of perks that might otherwise not be there. The city is a major customs port of entry for the country, serviced by a municipal airport and a harbour known for shipping salt, fertilizer, sugar and steel, and also home to one of Canada's newest post-secondary schools, the University of Ontario Institute of Technology. High-paying auto work is also a primary reason why the city had the highest median family income (at \$83,100 in 2004) among all census metropolitan areas. "Its presence

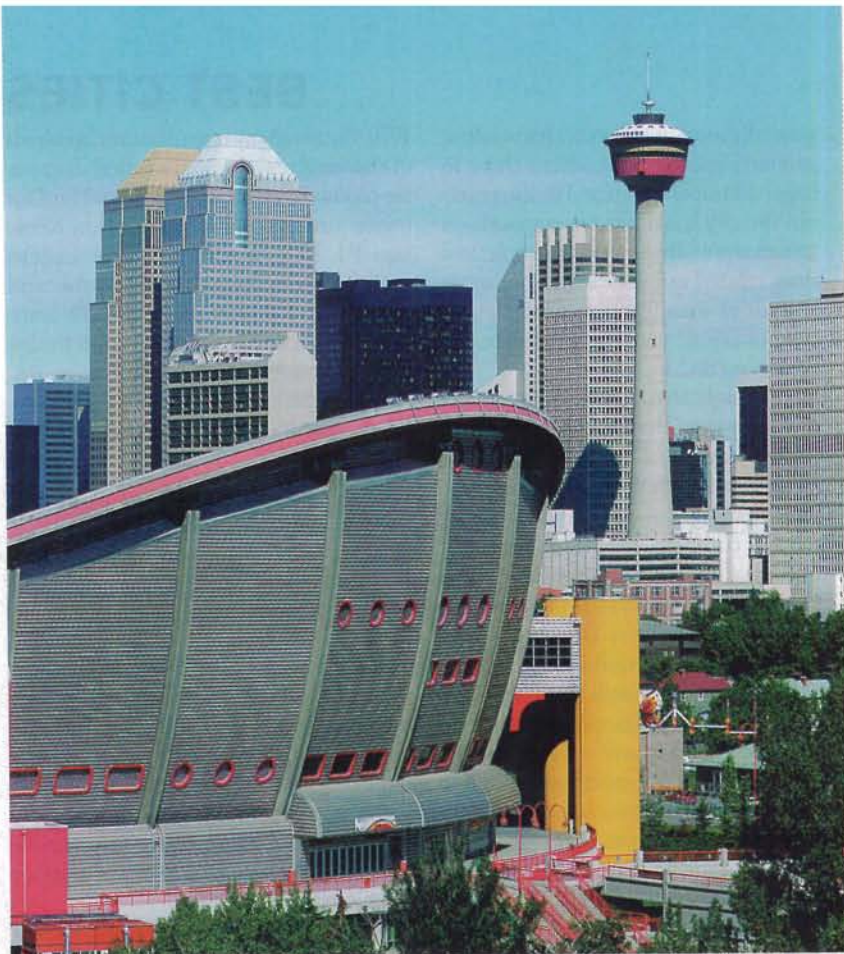


2 CHARLOTTETOWN

ANNUAL OPERATING COSTS (\$/ML): 29.66
COST OF LIVING INDEX: 69 BUILDING PERMIT
GROWTH (%): 36.11 UNEMPLOYMENT RATE
CHANGE (%): -20 CRIME RATE PER 100,000
PEOPLE (2006): 11,499

Anne of Green Gables, lobster, golf, potatoes, red sand beaches. That's typically what comes to mind when you mention Charlottetown or Prince Edward Island. There's certainly nothing wrong with those clichés—in fact, the island's tourism industry depends on it. But those responsible for local economic development are anxious for the city of 32,000 to become known for a whole lot more: biotechnology, information technology, software creation, financial services and even video-game development.

"Once we're on the radar, it's easy for them to see the advantages of doing business here," says Mayor Clifford Lee. Indeed, Charlottetown already has the highest building-permit growth, the third-lowest operating costs and the sixth-lowest cost of living of the 40 cities surveyed in this year's ranking. The only negative is its high municipal crime rate—twice as high as top-ranked Sherbrooke, Que. Charlottetown deputy police chief Richard Collins suggests residents in smaller cities are



Calgary's still-overheated economy makes it a tough place to set up a new business

creates a critical mass of engineering, technical and administrative talent that provides unique recruiting opportunities for companies opting for an eastern GTA location," says John Boyd, founder of corporate relocation consultant Boyd Co. Inc. in Princeton, N.J. Oshawa also has good shovel-ready sites, such as Stevenson Industrial Park, which is slated to get its own 401 exchange.

But until Oshawa can escape from under GM's shadow, for businesses it will likely remain a distinct second choice to the western and northern suburbs of Toronto.

ANDY HOLLOWAY

14

ABBOTSFORD, B.C.

ANNUAL OPERATING COSTS (\$MIL): **32.2**
COST OF LIVING INDEX: **80.2** BUILDING PERMIT
GROWTH (%): **15.38** UNEMPLOYMENT RATE
CHANGE (%): **-15.7** CRIME RATE PER 100,000
PEOPLE (2006): **11,224**

You don't have to look too far to find an incentive to pick up and move to Abbotsford, B.C., instead of Vancouver. Indeed, there are five million reasons. That's the difference in the annual cost of running a 300-employee business between the two cities. But Abbotsford has more than just a cost advantage. The city's GDP growth was 3.9% last year, according to the Conference Board of Canada, tied for third best

in the country. And the number of building permits has jumped nearly 16% from the first half of 2006, while the unemployment rate dropped by the same amount.

Once an agriculture-based economy in the Fraser Valley region, Abbotsford has developed into a viable—and popular—West Coast alternative. "You've got a lot of pressure in the Lower Mainland that is pushing its way east from the core communities of Vancouver, Richmond and Burnaby, out into the valley," says Jay Teichroeb, Abbotsford's economic development manager. Teichroeb attributes the city's growth as much to the success and expansion of existing businesses as to the arrival of new companies. For example, Cascade Aerospace Inc. started out in the agricultural sector—as a crop duster—and has since grown into a prominent player in airplane maintenance, repair and overhaul. The company is now the city's largest private-sector employer with about 600 people, and one of its main customers, Boeing Co., is just a quick hop over the border in nearby Seattle, Wash. Other growing sectors include health-care spinoffs from the new hospital set to open in 2008, distribution, and small businesses that take advantage

of the nearly 8% growth in population from 2001 to 2006. Abbotsford was ranked fifth in a list of "small business hotbeds" in a 2005 BMO Financial study of 130 Canadian cities.

Abbotsford's attraction extends beyond Vancouver or Seattle, according to John Boyd, founder of Boyd Co. Inc., a New Jersey-based corporate relocation consultancy. "Abbotsford is well positioned to capitalize on the booming energy-driven economy in Alberta and the huge growth in trade with Asia," he says. Abbotsford's mayor, George Ferguson, is also seeing this westward migration. "We can have people leave here in the morning, fly to Calgary, come back to Abbotsford and have done their day's business," he says. Indeed, there are at least 75 flights a week that leave for Alberta from the city.

While it's true that Abbotsford is "blessed with geography," as Teichroeb says, there's more to this little gem in the valley than its proximity to other, better-known places. There's a U.S. border crossing and a growing international airport—the sixth busiest by plane traffic in Canada—right in the city. "We have tremendous amounts of construction, the economy is robust—and then there's the lifestyle," says Jim McCaughan, president of the Fraser Valley Real Estate Board. Ski resorts are nearby, golf courses abound, Fraser River salmon are among the best in the world, and the community is pushing to acquire a minor pro hockey team.

There are challenges that could restrict the city's growth. A good chunk of Abbotsford falls under B.C.'s Agricultural Land Reserve, which restricts any non-agricultural land use. However, Abbotsford recently won its bid to have 450 acres removed from the reserve, and Ferguson says the development of industrial park space is ready to go, with a 500-employee transport company set to build. "We're the fastest-growing community in the region," says Ferguson. The lifestyle in the valley may be laid-back, but the pace of development is anything but.

REGAN RAY

36

CALGARY

ANNUAL OPERATING COSTS (\$MIL): **35.73**
COST OF LIVING INDEX: **93.7** BUILDING PERMIT
GROWTH (%): **-12.16** UNEMPLOYMENT RATE
CHANGE (%): **3.2** CRIME RATE PER 100,000
PEOPLE (2006): **6,708**

The traffic is bad, shootings are now common, the number of homeless has skyrocketed and it's impossible to find a place to live. Sounds like Toronto, but it's actually Calgary.

BEST CITIES

Economists call it the resource curse: the inevitable piling-up of negative social consequences that afflict resource-rich regions in periods of high commodity prices. "You sense things are bursting at the seams at times," says Mike Blanchard, host of a daily afternoon radio talk show. "We had eight shootings recently. They were brash, and that shocked a lot of people. There's a perception out there that it's getting a little worse."

But that's often the price of rapid growth. Some 70 new people a day moved to Cowtown last year—not all of them for the right reasons. Police are scrambling to keep up with a booming drug trade and a recent survey conducted by Calgary's Building Owners and Managers Association found an increase in crime in the Plus 15, the maze of elevated, covered walkways that connect downtown office towers. That has some longtime Calgary residents fearing that they are losing their once recognizable community to a growing and faceless urban mob. Indeed, the latest trend is to cash out a hyper-valued foothills home to live mortgage free in Saskatoon, a city undergoing its own "spillover" boom (see story page 35). That's a wise move if you think the 12 new office buildings on the way downtown—and 32 more in the suburbs—suggest the city has a way to go yet before it digests the most recent boom.

There is some good news. The city's hyper-growth seems to be tapering off, and there is a burgeoning sense locally that a new city is emerging. "Calgary is at an interesting place right now," says Josh White, the president of the Calgary Urban Initiative, an advocacy group made up of younger people. White works as a community planner for the Beltline communities and helped usher through legislative changes that will see the area just south of the downtown develop into a high-quality, high-density neighbourhood. "The growth going on in this neighbourhood is amazing. Every undeveloped block surrounding the Stampede grounds has been bought up," says White. "But that's where people say they want to live."

The city has also created a new design committee for condos that will weed out mediocre plans, and is experimenting with things such as tax increment financing—a sometimes controversial tax scheme implemented in U.S. cities like Chicago—that helps underdeveloped and blighted areas get back on their feet. Calgary is the first Canadian city to use the program. "It's that Wild West mentality. We're not afraid to try it out," says White. JEFF SANFORD

40 THE TOP PLACES TO DO BUSINESS IN CANADA

Rank	City	Annual operating costs (\$mil)	Cost of living index	Building permit growth (%)	Unemployment rate change (%)	Crime rate per 100,000 people (2006)
1	Sherbrooke, Que.	29.44	64.3	23.81	-21.9	5,491
2	Charlottetown	29.66	69.0	36.11	-20.0	11,499
3	Saguenay, Que.	28.37	69.8	-12.75	-2.3	4,038
4	Moncton, N.B.	30.73	65.0	19.12	-10.5	9,514
5	Laval, Que.	33.30	79.0	6.59	-25.3	5,237
6	Trois-Rivières, Que.	31.62	81.0	3.41	-3.8	4,792
7	St. John's, Nfld.	29.86	66.7	-26.19	-17.8	6,773
8	Saint John, N.B.	30.90	66.0	-20.99	-21.2	7,885
9	Oshawa, Ont.	34.79	73.6	2.80	-3.4	4,890
10	Longueuil, Que.	32.42	80.0	-1.24	-25.3	6,912
11	Quebec City	31.74	73.9	21.07	20.5	4,931
12	Lévis, Que.	31.41	71.9	-1.54	20.5	4,931
13	Greater Sudbury, Ont.	32.81	75.0	-6.12	-14.7	6,219
14	Abbotsford, B.C.	32.20	80.2	15.38	-15.7	11,224
15	Cape Breton, N.S.	30.82	67.0	-17.86	2.1	7,437
16	Gatineau, Que.	33.24	85.3	10.43	0.0	5,645
17	Hamilton	33.94	72.0	-1.42	7.0	5,602
18	Saskatoon	31.50	73.3	4.19	-4.3	12,209
19	Kitchener-Waterloo, Ont.	34.14	73.0	26.63	21.3	5,315
20	Red Deer, Alta.	33.21	73.2	-14.89	-38.2	13,206
21	Brampton, Ont.	34.96	85.0	11.21	9.5	4,513
22	Vaughan, Ont.	35.30	86.3	11.46	9.5	4,067
23	Winnipeg	30.92	72.2	3.70	16.7	11,085
24	Regina	31.72	74.3	0.00	0.0	12,415
25	Markham, Ont.	35.28	84.0	-9.95	9.5	4,067
26	Montreal	33.86	89.9	-21.10	-25.3	6,912
27	Ottawa	33.80	83.0	9.88	24.4	5,775
28	Edmonton	33.81	82.5	-3.31	0.0	10,079
29	London, Ont.	33.90	73.8	-19.92	1.8	8,137
30	Windsor, Ont.	34.72	74.7	-11.93	9.3	6,754
31	Mississauga, Ont.	35.85	88.0	-3.60	9.5	4,513
32	Saanich, B.C.	34.43	88.6	-23.88	-13.9	5,774
33	Halifax	31.28	74.0	-13.92	15.7	8,715
34	Barrie, Ont.	34.04	92.0	-29.55	-29.0	7,682
35	Toronto	35.92	100.0	28.86	9.5	7,413
36	Calgary	35.73	93.7	-12.16	3.2	6,708
37	Surrey, B.C.	36.55	89.0	4.14	7.3	12,071
38	Richmond, B.C.	36.57	89.4	-20.26	7.3	8,199
39	Burnaby, B.C.	36.60	88.9	-21.96	7.3	11,655
40	Vancouver	37.16	98.5	-20.46	7.3	11,583

SOURCES: BOYD CO. INC., STATISTICS CANADA, LOCAL POLICE DEPARTMENTS

METHODOLOGY

The 40 cities selected for the *Canadian Business* survey of Canada's best places to do business include the country's 25 largest municipalities, according to the 2006 census, plus 15 smaller centres in order to provide regional representation. We ranked these places on five factors reflecting socio-economic health:

■ annual variable operating costs (salaries, benefits, utilities, property taxes, the amortization over 25 years of construction costs on a 50,000-square-foot mid-rise office space, and travel costs as of June 2007) of a typical 300-employee head office, as calculated by Boyd Co., a site relocation consultant based in New Jersey; ■ cost of living using Toronto as a base 100 (calculated by Boyd); ■ change in non-residential building permits from the first half of 2006 to the first half of 2007, as supplied by Statistics Canada; ■ change in unemployment rate from June 2006 to June 2007, according to Statistics Canada; ■ crime rates, based on 2006 census metropolitan area or census area data from Statistics Canada. Cape Breton, N.S., Moncton, N.B., Lévis, Que., Longueuil, Que., and Oshawa, Ont., rates use regional crime reporting data; Toronto, Mississauga, Brampton, Vaughan and Markham, Ont., rates use local police department data.

The final ranking weights each factor based on a Canadian Business Online poll of 5,343 readers rating the importance of various site selection criteria. Operating costs were judged to be the most important factor in setting up a business, followed by economic growth (measured by building permits), cost of living, crime and employment rate. The study does not address balance-sheet-related issues, such as income tax and government incentives, as they are specific to each company.