

VALLEY NEWS

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Bargain Hunters Head South

Strength of Canadian Dollar Prompts Northern Neighbors to Shop

By Chris Fleisher, Valley News Business Writer

With their proximity to the border and promises of an easy weekend escape, the resort homes at Quechee Lakes have a natural pool of potential buyers in Quechee.

When Charlie Macpherson promotes Quechee Lakes properties to second home buyers, he plays up their location and the year-round activities. But at a convention in Montreal two weeks ago, the people crowding his booth had something else on their minds.

“We get a lot of market questions,” said MacPherson, who last week was still recovering from the three-day home expo. “Part of our job is to educate people who think they can sweep into Quechee and scoop up a bargain.”

Bargains can be relative – especially at a place like Quechee Lakes, where average home prices are around \$464,000. But with foreign investors, bargains (or at least perception of a bargain) often hinge on the currency exchange rate, which has been favorable for Canada in recent months.

Last September, the Canadian loonie broke the U.S. dollar barrier for the first time in more than 30 years. Then it kept going to its highest point since 1957, surpassing the greenback to \$1.06. And though it’s since dropped back to below or even with the dollar, the loonie remains strong and Canadians are looking for deals across the border. Most of the activity has been in retail shopping, according to some analysts. But others, like MacPherson, are betting that our neighbors to the north are ready for larger investments. And he’s hoping to take advantage.

“My opinion is, Canadians for a long time looked at the fact that their dollar was a lot weaker than the U.S. dollar and were a little bit upset about it,” MacPherson said. “Now, it’s a-ha. It’s about jolly well time.”

The loonie’s ascent has built steadily since 2002, when it hit a low value of just 62 U.S. cents to the Canadian dollar.

Though experiencing slight dips along the way, the Canadian currency continued its patient climb until the second half of last year, when it exploded through barriers it hadn’t approached in decades, according to January report by TD Bank Financial Group.

Economists attribute its rise to a number of factors, including sound microeconomic policy by Canada’s central bank. But the main driver been rising commodity prices for wheat and oil, both of which Canada is a major exporter, the reporter said.

Also, years of undervaluation created a “bursting of pent-up momentum,” according to the reporter, blowing the lid off the loonie last year and persuading many Canadians (especially those along the border) to go on a shopping spree.

“We do know there was a lot of cross-border shopping happening,” said Beata Caranci, director of economic forecasting for TD Bank in Toronto. “All the rage was to get over to the U.S. and buy what you can.”

Most of the activity stayed in retail, where shoppers could act quickly on day-to-day fluctuations in the currency exchange. The good times lasted long enough, however, to force Canadian retailers to make some significant changes.

Booksellers, for example, had to change their prices on their merchandise, which set a higher cost in Canada than in the United States, Caranci said. Retailers were not only expected to match the U.S. price – they had to beat it.

And even then, Canadian shoppers were still slower to come around. For one, closing on a second home or buying a business is a longer process, and no one is sure how long this favorable exchange rate will last. At most, it has been the icing on the cake for deals already in progress. Eric Frechette, a produce wholesaler in Quebec, has said it factored into his purchase of Upper Valley Produce in West Lebanon earlier this year.

The exchange rate “makes this acquisition more attractive,” he said in a January interview.

He’d began working on the deal last year, however, and months before the loonie achieved parity with the dollar.

Upper Valley real estate broker Bob Haynes said he’s handled inquiries from potential Canadian investors, but nobody has plunked down any money yet.

There seems to be some hesitation, he said, with talk of recession in the U.S.

“The reason the exchange is good is because our economy is down. How do you want it? Do you want it in return or do you want it in risk?” he said. “To get it, the timing has to be right, but that doesn’t happen that often.”

New Hampshire development officials said they’ve seen more interest from Canadian investors, but credit it to more than the exchange rate. Michael Bergeron, business development manager at the state Department of Resources and Economic Development, said he’s stepped up efforts to attract Canadian employers who want to expand or relocate to the state.

And Those Already Here?

Companies with established cross-border investments appear to be unfazed by the exchange rate.

Energy-giant TransCanada, which bought a string of hydroelectric dams on the Connecticut River (including one in Wilder) in 2005, has seen no impact on its bottom line this year as a result of the fluctuating currency, official said.

The company insulates itself against the kind of volatility, according to company spokeswoman Cecily Dobson.

“Recent change in the Canadian/U.S. exchange rate has had little to no bearing on our decision making about investing in the U.S.,” Dobson said in an e-mail to the Valley News. “Generally speaking, movements in the exchange rate do not affect the way we look at potential new investments in the U.S. because we effectively try to hedge our exposure to the U.S. dollar in terms of assets and liabilities as well as revenues and expenses.”

Officials at Ontario-based Ice River Springs Water Co. said they were protected against change in currency, no matter how dramatic.

The bottled water company, which is building a plant in Claremont, has manufacturers that were hurt on foreign exports to the United States. Water is heavy, after all, which makes it expensive to haul long distances. That means product made in Canada stays in Canada, and the same for products made in the United States.

Ice River doesn’t really stand to lose or gain when the currency exchange shifts, said Sandy Gott, vice president of corporate affairs for the company.

“We’re sort of unique,” Gott said. It hasn’t had a big impact.”

Here To Stay (For Now, Anyway)

At the end of last year, a number of economic models considered the loonie to be overvalued by as much as 9 cents, in U.S. currency, which would have put it below par with the U.S. dollar, according to TD Bank report.

Commodity prices, however, continue to look strong, which means the loonie isn’t likely to drop much, it at all.

Caranci, of TD Bank, said some Canadian home buyers have been asked about real estate in the southern United States, where foreclosures have hit the market harder. It’s also just a more attractive market, she said, for people who want to escape Canada’s cold winters.

She hasn’t heard much interest about buying in New England, but that doesn’t deter people like MacPherson of Quechee Lakes.

Recalling the mid-February expo, he pauses, searching for words to describe the crowds at his booth.

“It was just a crush of people and it never let up,” he said.

Quechee Lakes was one of more than 400 exhibitors there, yet it still has “literally hundreds” of registration cards filled out, he said. MacPherson believes they see “Vermont” on the banner, conjure images of quiet, small-town life, winter skiing, summer fishing and autumns of orange and crimson, and want it.

And they also remember last fall, when one Canadian dollar bought \$1.05 in the United States.

“You’re looking at that piece of real estate, and it sounds to me like a 5 percent discount.” MacPherson said, “That sounds like a pretty good deal to me. I’d take that deal.”

Chris Fleisher can be reached at (603) 727-3229 or cfleisher@vnews.com