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OIL PARTY HITS THE SKIDS

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Black & White Photo: Ted Rhodes, Canwest News Service / Real estate prices and office vacancies in Calgary are loosening dramatically.

Black & White Photo: Grant Black, Canwest News Service / Aston Martins at the Calgary auto show earlier this year. Some luxury car dealers are finding pricey vehicles a harder sell.

CALGARY -The other day, John Davis, a money manager to Calgary's uber-rich, was walking along a downtown street and saw a man pull out of the parking lot of a gleaming office tower in a splashy Mercedes.

In the side windows of the car were "For Sale" signs. The driver would settle for 40 grand.

"I just thought, 'Now I have seen everything.' If you own a Mercedes, it would be kind of embarrassing to post a 'For Sale' sign on your window," said Mr. Davis, senior vice-president at Corporate Planning Associates.

It's an indication of how much and how quickly Calgary -- a city sprinkled with "Beemers" parked on heated driveways -- has changed in the past few months.

Sure, the whole world is taking it on the chin from the financial meltdown. But Calgary thought it was invincible, its latest boom being so big and lasting so long. Downturns have been wiped from the city's collective memory.

Fancy stores were rushing in. High-end car dealerships such as Aston Martin opened their doors. Second and third homes were snapped up on ski hills, the West Coast and Arizona. Houses were bulldozed to make room for mansions, while new country estates devoured the ranchland surrounding the city. And Calgarians happily regarded paying high gasoline prices as part of their civic duty.

That was then.

Mr. Davis can pinpoint the precise day Calgary's cockiness faded: Oct. 10.

The stock market's energy group, where Calgarians hoard their wealth, had just wrapped up a 25% nose-dive, deepening losses to 60% from the June 18 high.

"The last time we went through a bear market it was technology driven," Mr. Davis said. "Calgarians didn't have any skin in that game. Their energy holdings just kept going up and up and up, and so [the tech bubble] was something affecting the rest of the world. Whereas this is affecting us, and it's affecting us more severely than the broader market."

In the past month, some $30-billion in oil sands plans has been put on ice. Conventional oil and gas projects will be funded next year only if there's enough cash to support them. Companies that had been tossing around billions of dollars without blinking have turned frugal.

With oil prices nearly 60% lower than they were in July, the city is bracing for a downturn that could stretch one to two years.

According to Richard Corriveau, regional economist for Canada Mortgage and Housing Corp., Alberta's growth rate is set to shrink to a paltry 1.9% next year, and it could drop further depending on what happens to the oil sands.

That's a seismic shift from the 6.5% growth experienced in 2006 -- so high Alberta was likened to China. The province's output grew 3.3% in 2007.

While certainly slowing, Mr. Corriveau said Alberta will still outpace the rest of the country.

Yet, the belt-tightening is affecting all corners of the city.

Charities have accepted that the easy money that used to come their way will be tougher to find.

Ruth Ramsen-Wood, president of the United Way of Calgary and Area, said her organization set its 2008 fundraising goal at $52-million, up just 3% from its 2007 target. But getting to this goal is going to be a slog.

Some major individual donors -- those who chip in around $25,000 to $30,000 and whose wealth is closely tied to the stock market -- are stalling.

"They are just saying, 'I don't know yet,' " said Ms. Ramsden-Wood. "We won't be cruising in over [our] goal this year," she said.

Mr. Davis, the money manager, said many of the executives he looks after are putting on hold plans for charitable foundations.

The city's Bentley and Aston Martin dealerships, which live off Calgary's oil money, started to feel the effects of the slowdown about six or seven weeks ago.

"We've already seen a little bit of a slowdown," said Andrew Baker, who has been selling top-of-the-line vehicles such as Bentleys and Porsches for 17 years. "I have to admit, it has been a little bit challenging the last few weeks."

The last time Mr. Baker saw a similar stall in sales was in 1991-92, when the stock market crashed in the United Kingdom, where he was working for Porsche. "I'd like to think what we're going through is temporary," he said.

High-end restaurants that were feasting on customers with fast cash and fancy tastes are seeing volatility.

"As soon as the first real wave of [market] craziness came in, a month back or so, we did about a week of service where we noticed a little bit of drop," said Devin Morrison, general manager of Teatro Restaurant, where an average meal for four people rings in around $400, but it isn't unusual to see big spenders drop $900 in a sitting. "But aside from that, really nothing crazy."

Though Teatro escaped October's mess, Mr. Morrison said his colleagues in the hospitality industry are talking about the consequences of the slowdown.

Some of the biggest declines have been in residential real estate values that were once cause for bragging. The Calgary Real Estate Board this week said October condo sales were down 20.36% from last year, while single-family home sales dropped by 26.33%. The average condo sold for $289,148, a drop of 12.81%, while the average single-family home was down 0.7% to $449,100.

Meanwhile, Calgary's office market, where the vacancy rate two years ago was nonexistent, is loosening up dramatically.

With five office towers launched during the heyday and soon scheduled for completion, the vacancy rate could soar between 11-12% in the next three to four years, said Randy Fennessey, president of Colliers International's Calgary office.

"It's too early to hit the panic button on the Calgary market," he said. However, "we will certainly be negatively impacted by the events unfolding in the world economy."

Mr. Fennessey sees more space coming up as distressed companies merge, but that will be tempered by the continuing influx of oil multinationals moving into the oil sands.

"Companies like [Parisbased] Total that were renting 9,000 square feet a few years ago, their growth curve has been tremendous," he said. "Now they are leasing 100,000 square feet and change. And they are continuing to grow. Others out there are similar."

While there has been buzz about layoffs, they haven't yet materialized. Headhunter Mark Hopkins, a partner at Conroy Ross Partners Ltd., said he hasn't seen a slowdown in oil and gas recruiting yet, but demand for talent is shifting.

Smaller companies and start-ups that used to be big hirers are scaling back, while bigger companies with solid financial positions are still moving ahead.

As companies complete their budgets for 2009, it is likely there will be more emphasis on filling essential positions, and less on growth positions, Mr. Hopkins said.

Mr. Davis said he watched the wealth of his clientele explode during the oil bull market of the past decade. Among his clients, the average net worth rose to $25-million to $30-million, from $5-million. Indeed, many were planning their retirement parties.

Now purchases like private planes and vacation properties have been put on hold.

The crash is forcing them to rethink all their plans, he said.

"They are feeling poorer."

OIL SANDS PULLBACK

Among those pulling back on spending are:

Suncor Energy Inc. is holding off on its Voyageur expansion plans. It has cut about $4-billion from its 2009 spending budget.

Value Creation Inc. delayed construction on an upgrader. It had a $4-billion price tag.

Nexen Inc. and partner OPTI Canada Inc. have indicated expansion plans at their Long Lake project will be delayed.

Statoil ASA and Total SA are holding off on upgraders. Petro-Canada is considering pushing back an upgrader at its Fort Hills project. That would provide it a savings of $10-billion.

Royal Dutch Shell PLC delayed any further expansion of its Athabasca project. The next expansion would have cost around $12-billion.

Companies such as Canadian Natural Resources Ltd., Talisman Energy Inc. and EnCana Corp. are cutting spending on conventional oil and gas projects, but budgets have not been finalized.