Smart Money: What are Canada's Largest Institutional Investors Doing Post Pandemic?

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REALPAC Conference
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Accelerating success.

Overview

Why Focus On Institutions…?

- Market leaders
  - Largest participants, often $100B+ AUM
  - Diversified
  - “Copycat” nature of investing
  - Oxford focus on life sciences; CPP investment in China
- Global reach
  - Increasingly comparing Canada to global assets
- Normally a significant part of buy and sell side of market
  - Buy side has disappeared in Canada
- And let’s not forget… behavior is public and easier to track!

Overview

What Are We Looking For?

- Real estate generally
  - Invest or divest?
- Asset class trends
  - Industrial
  - Alternatives
  - Office
- Geographic trends
  - Canada vs US
  - North America vs Asia/Europe
- Buy or “DIY”
  - Existing asset vs development/land approach

Overview

Traditional view of pension funds

- Buy and hold investor
  - Decades long time horizon
  - Essentially never selling
- Focus on “core” assets
  - Retail (Yorkdale, Eaton Centre, Pacific Centre)
  - Office (Georgia St, Bay St, Calgary resource towers)
  - “Gateway”/Tier 1 Markets
  - Participation in other markets only for “signature assets”, e.g. Fairmont Banff hotel
- Key bidder for desirable assets
  - Downtown A/AAA office
  - Hudson Yards type mega projects needing capital

Overview

Pre-Pandemic Trends

- Moving away from weaker assets and markets
  - Divestment from Alberta post-2015
  - Selling retail selectively
- Significant investments/partnerships in Asia
- Diversification to alternatives
  - Life Sciences
- Focus on “gateway markets”
- Selected mega-projects in prime locations
  - Hudson Yards/Manhattan

Overview

Post Pandemic Reality

- Canadian pension plans have globalized
  - Canada is the #2 source of outbound RE investment capital globally
  - Offices in Berlin, Singapore, Sydney, London, etc
- Pension plans are overweight real estate
  - Low rates led to real estate outperformance
  - “Denominator effect” means fewer real estate acquisitions
- Pricing stalemate for some assets
  - Office most notably due to remote work
- Rapid rate hikes
  - Lack of market activity/sales benchmark
  - “Risk free return” much higher than previously

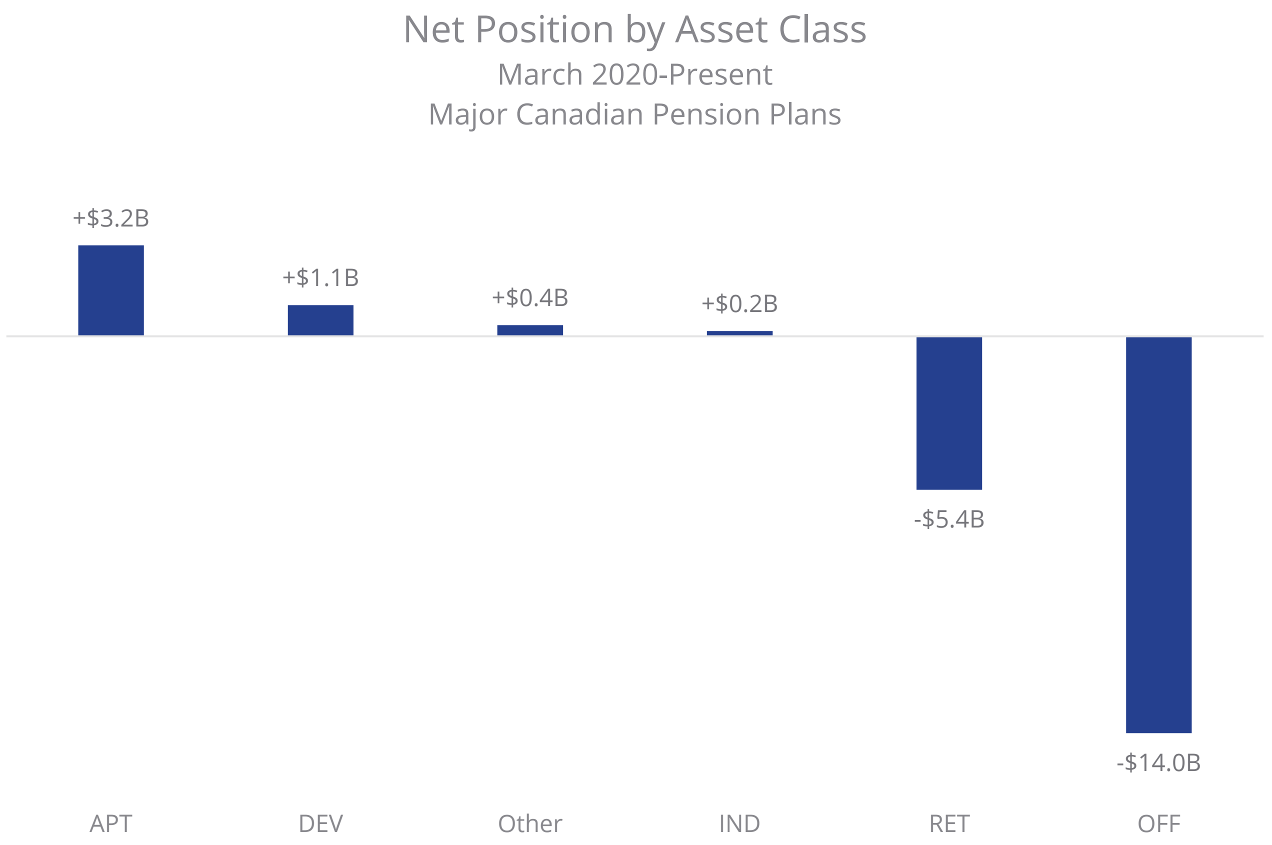
Methodology

Data Collection and Analysis

1. Gather Investor profiles from Real Capital Analytics/MSCI
2. Cleanse data, filter to 2020 forward
3. Remove financing “transactions” – buy and sell only
4. Remove transactions without complete details (date, price)
5. A pretty good estimate of mega-investor activity
   - CPP
   - OMERS
   - OTPP
   - HOOPP
   - QPP
   - Aimco
   - Quadreal

Conclusions

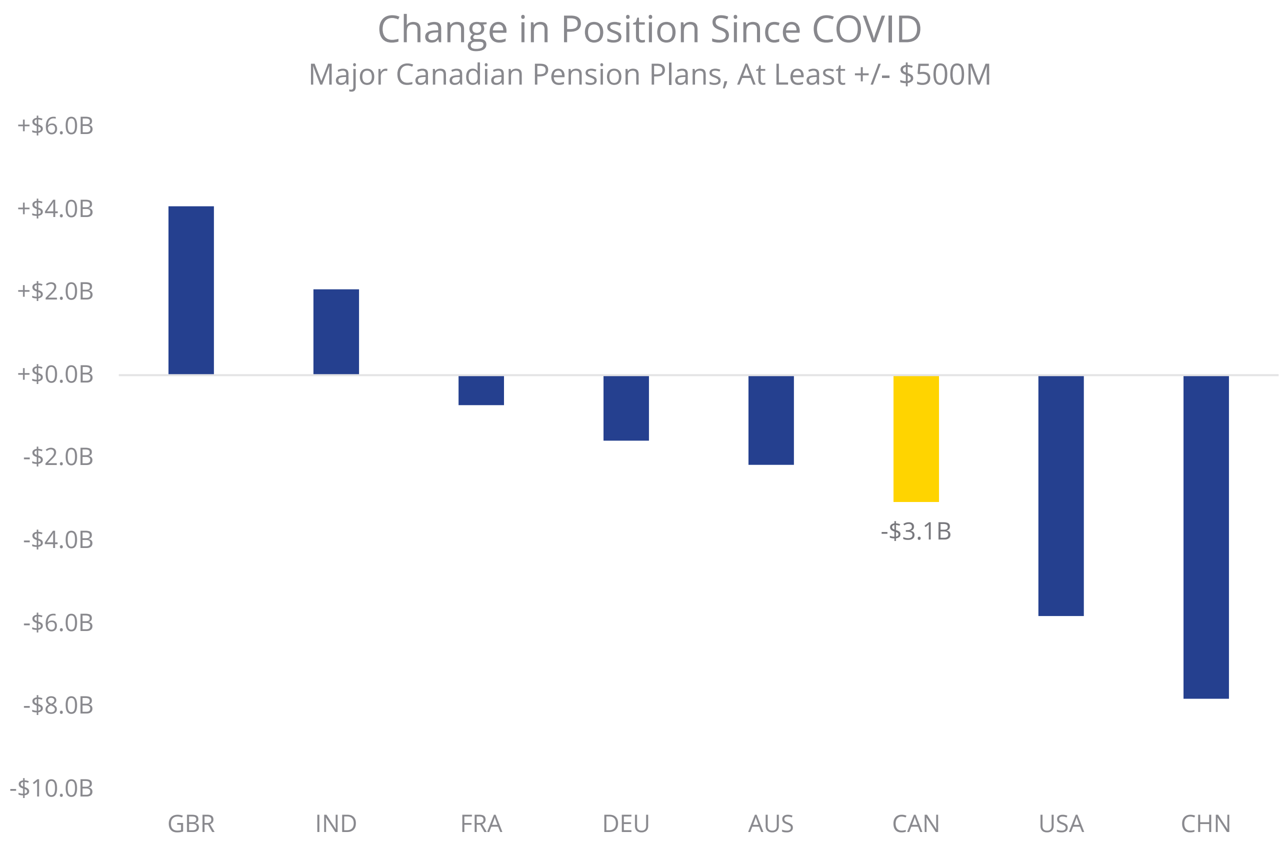
Selling Office, Buying Apartments



- Moving from traditional CRE holdings to smaller-scale assets
- Sell off retail and especially office
- Major transactions like RBC Plaza
- Openness to smaller assets is weaker markets
- Bet against A office… but at the same time developing new ones
  - 160 Front
  - CIBC Square

Conclusions

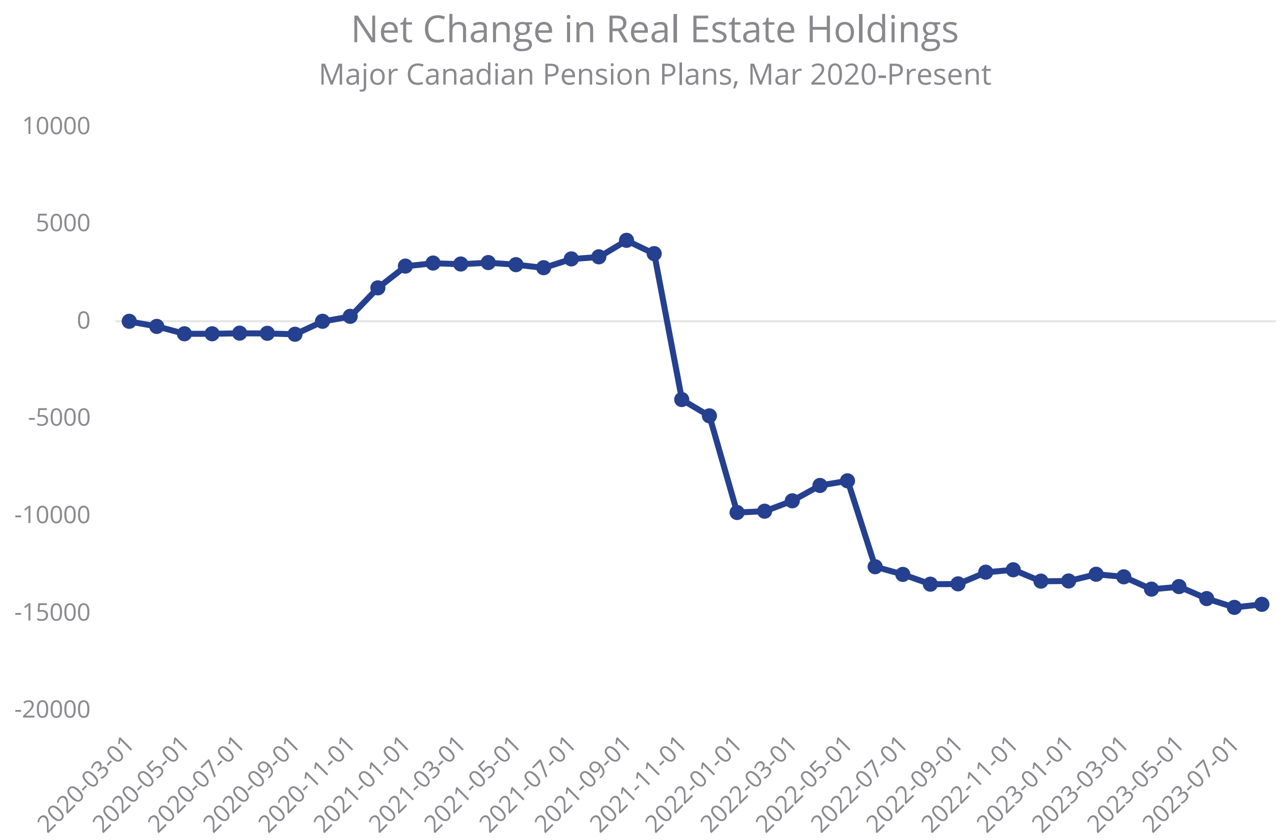
Selling Canada (and most markets)



- Selling real estate overall, but not evenly distributed
- Funds have divested from their three core markets of the prior decade: China, USA and Canada
- Acquisitions in India, UK

Conclusions

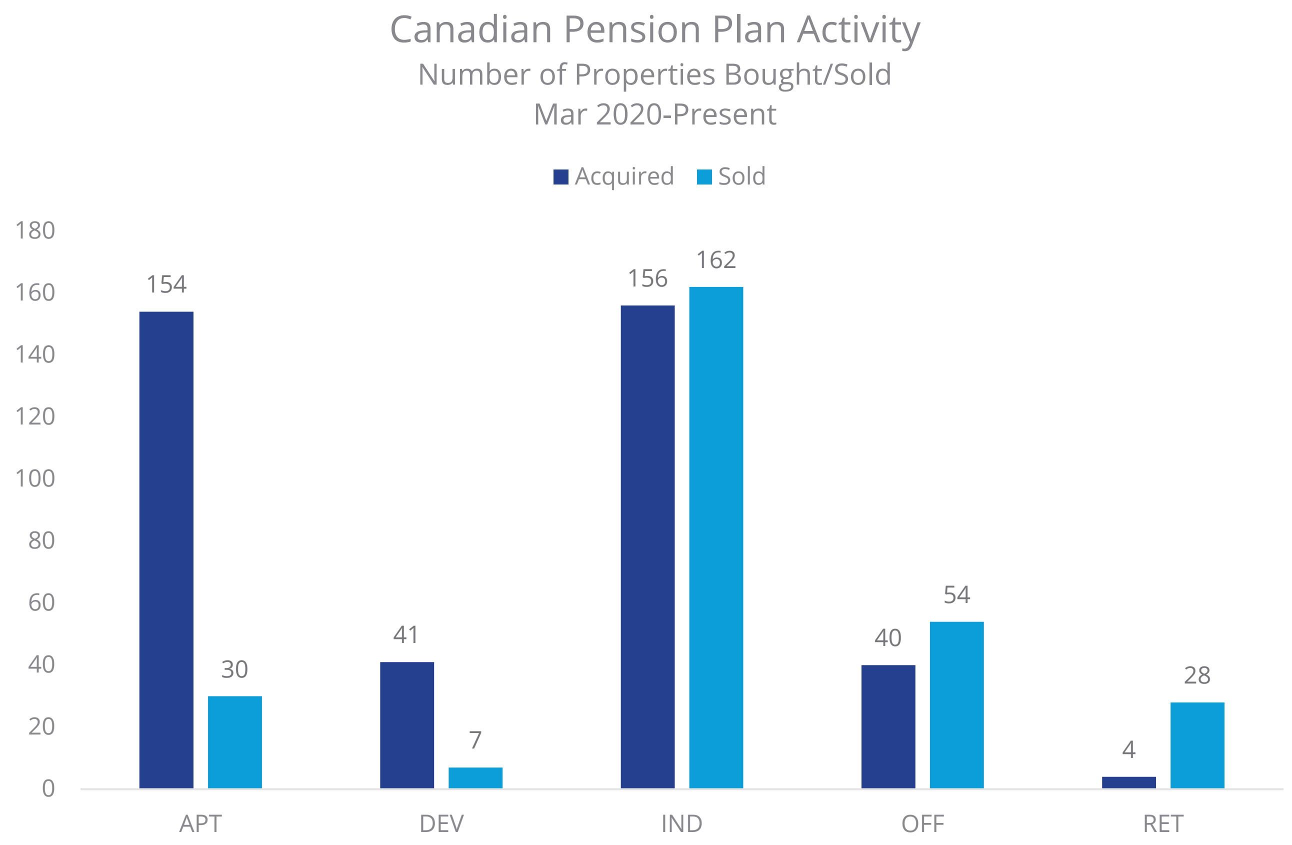
Selling Canada (and most markets)



- Change in sentiment partway through pandemic
- As of Q4 2021, funds were +$3.4B real estate globally
- Currently -$14.6B
- Ability to sell to a broader pool with low rates
- Record high prices
- Increasing rates change calculation of real estate vs "risk free return"

Conclusions

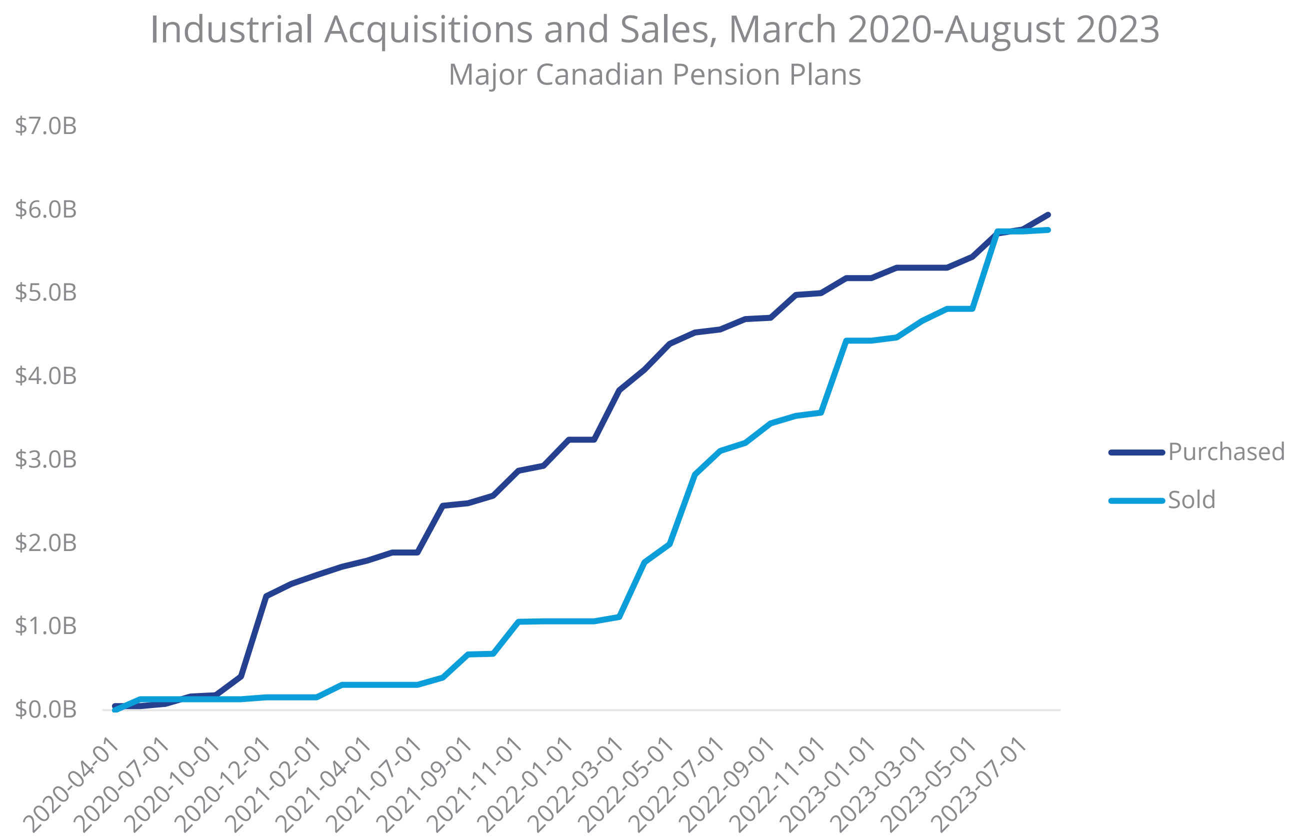
New Focus on Development and Housing



- Huge acquisition of apartments, not a traditional holding
  - Smaller assets
  - Less management required
  - Higher turnover in leasing
- If you can't buy a good asset… develop one yourself
  - Leverages long time horizon of institutional investors
- And then there is industrial….

Conclusions

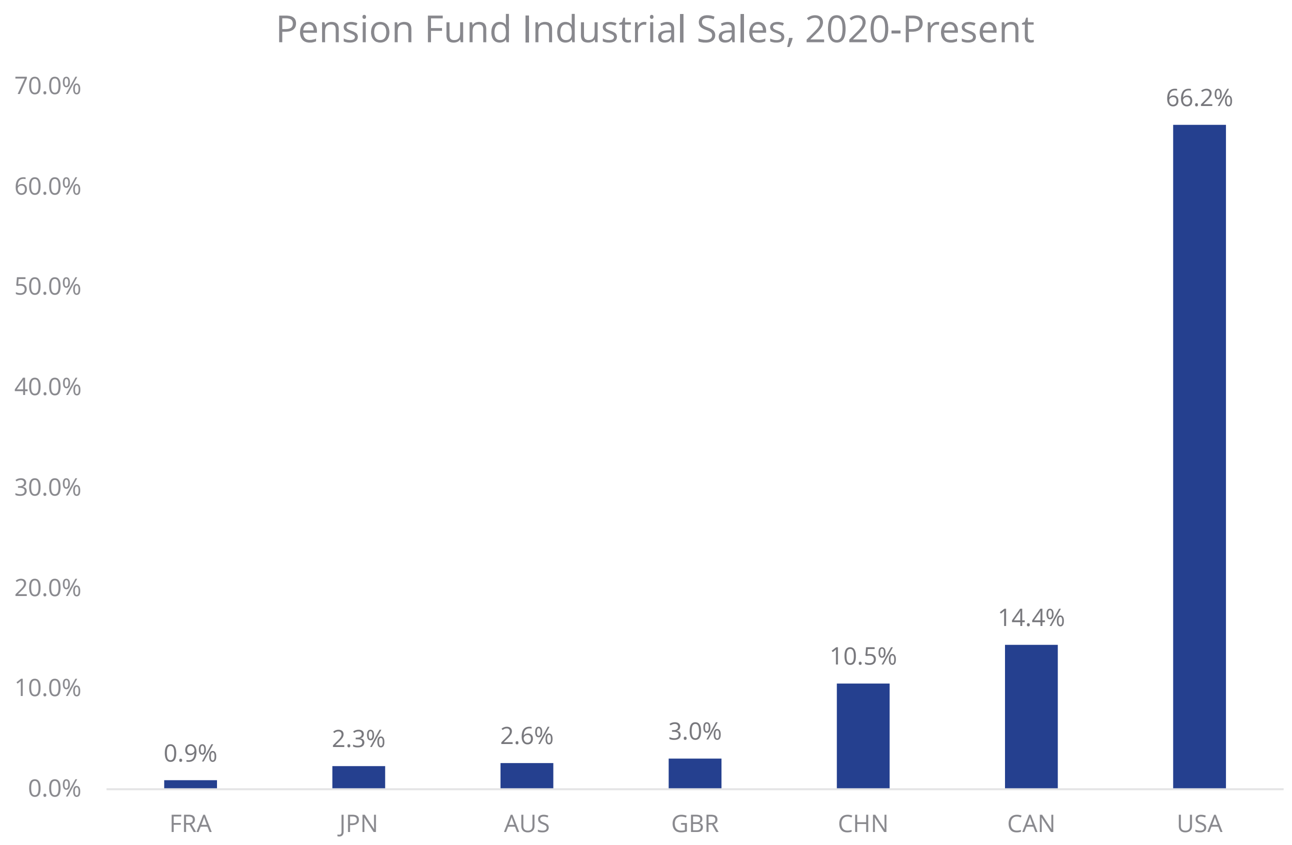
Huge industrial activity



- Funds have bought $6B of industrial… and sold $6B of industrial
- Darling asset of the pandemic
- Largely a rebalancing and focus on high-rent markets such as London
- Canada offers very strong rent growth but much lower rents than Asia/Europe/UK

Conclusions

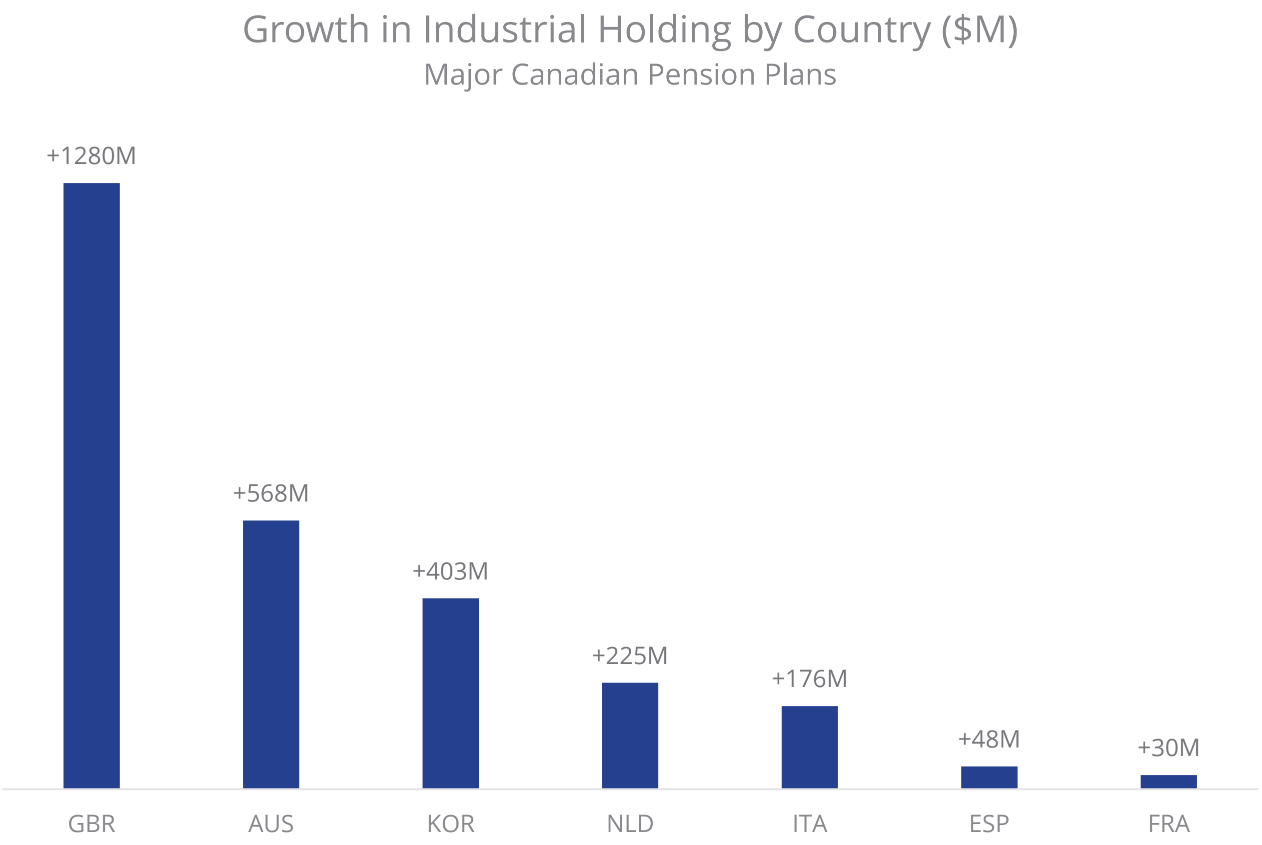
Diversifying Out of North America



- Vast majority of assets sold have been in USA or Canada (>80%)
- Sign of a potential market top or at least slowdown
- Major market industrial has been beyond hot since 2020
  - Montreal +70% yearly rent growth,
  - Vancouver rents 40% above any other market
  - Inevitable this will tail off so "cash out"

Conclusions

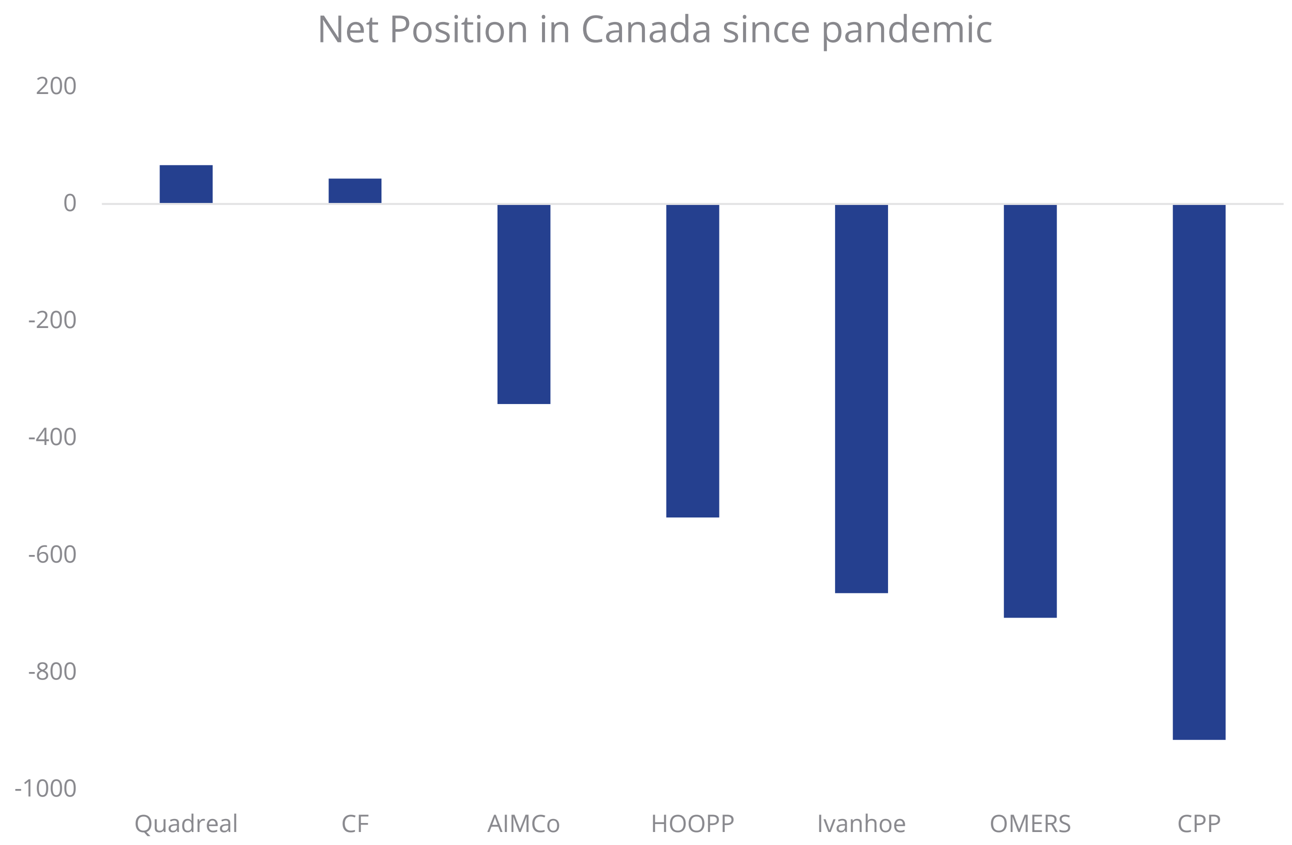
Industrial Goes Abroad



- Industrial acquisitions largely outside North America
- Diversification outside home markets
- Europe and Asia have far higher lease rates
- Less risk of “reshoring” or tariffs with EU

Conclusions

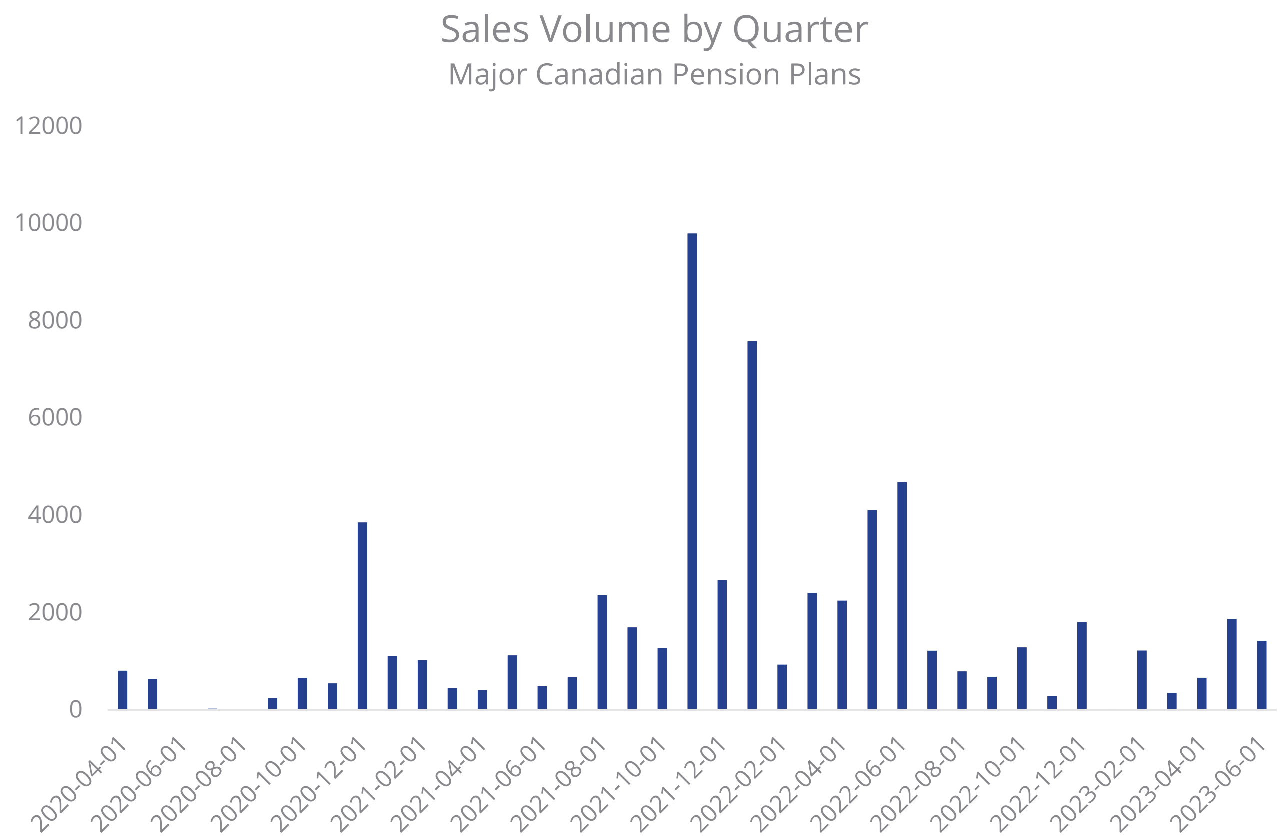
Selling Canada (with some variation)



- Five plans sold off in Canada
- Some variation
  - CF – no sales at all for years
  - Quadreal – most active in acquisitions/development
- Sale to private investors was attractive in low rate environment
- Unclear who will buy large assets in current rate environment

Conclusions

Sales highly concentrated in time



- Eight-month period from Nov 2021 to June 2022 accounts for majority of sale activity
- "Sweet spot"
  - Re-opening post COVID
  - Very low financing costs
  - Huge private investor/foreign buyer presence in CRE market
  - Backlog of deals from 2020
- Next 1-2 years may return to dormant state

Conclusions

Closing Thoughts

- Rotation away from Canada
  - Despite positive demographics/fundamentals
  - Despite interest from Blackstone, sovereign wealth funds
- Rotation away from “core” to smaller, more niche assets
  - Creates opportunities for privates
  - “Trickle down” effect of pension plans to other investors
- What is the “smart money”… isn’t smart?
  - Groupthink
  - Underperformance of QPP, OMERS
  - Diminishing returns