Pension Pulse

Daily insights on Pensions and Financial Markets

Canada's Pensions Revamping Real Estate?

By Leo Kolivakis   February 12, 2020

Real Estate News Exchange reports that CPPIB, Goodman pump $2.5B into North American industrial fund:

Goodman Group and the Canada Pension Plan Investment Board say they will invest an additional US$2.5 billion in their eight-year-old Goodman North American Partnership (GNAP), increasing their total equity commitment to US$5.5 billion.

The latest expansion of the GNAP will be funded with the partner's existing 55/45 equity structure; Goodman will allocate US$1.4 billion (all figures US unless specified) and CPP Investments $1.1 billion.

The fund was established in 2012 to invest in high-quality logistics and industrial property in key North American markets. With an initial commitment of US$890 million in 2012, GNAP's assets have grown to approximately US$3 billion.

The latest commitments bring GNAP's total investment capacity to about US$7.5 billion, when what the partners call a "moderate" amount of debt is factored in. This provides significant capacity for ongoing property acquisitions and developments.

Focus on major U.S. markets

“The partnership continues to build scale in select U.S. logistics markets, including Los Angeles, Southern California’s Inland Empire and the New Jersey industrial markets, totaling over 16 million square feet of assets under management,” said Anthony Rozic, chief executive officer of Goodman North America, in a release.

“Our portfolio is concentrated in key urban locations close to large consumer populations and allows our customers to meet growing consumer demands for faster last-mile delivery.

“Having acquired over 200 acres in key infill locations in the last six months, the partnership has the momentum, expertise and capital to continue acquiring and developing new properties in our target markets.”

The fund has been steadily acquiring assets, among the recent purchases a 617,000-square-foot logistics warehouse in Northern New Jersey for US$170 million.

“With the rapid growth of e-commerce in the U.S. and ongoing supply-chain modernization, fundamentals in the logistics sector continue to strengthen, particularly in strong urban markets, reflected by record sustained rent growth and occupancy levels,” said Peter Ballon, managing director, global head of real estate, CPP Investments, in the release.

“Through GNAP, CPP Investments is well-positioned to capitalize on these structural shifts.”

CPP Investments and Goodman have several investment partnerships, including the US$5 billion Goodman China Logistics Partnership and the Goodman Brazil Logistics Partnership.

About Goodman

Goodman Group is an integrated property group with operations throughout Australia, New Zealand, Asia, Europe, the United Kingdom, North America and Brazil.

Goodman Group, comprised of Goodman Limited, Goodman Industrial Trust and Goodman Logistics (HK) Limited, is the largest industrial property group listed on the Australian Securities Exchange and one of the largest listed specialist investment managers of industrial property and business space globally.

About CPP Investments

CPP Investments invests the funds not needed by the Canada Pension Plan (CPP) to pay current benefits in the interests of 20 million contributors and beneficiaries.

To build diversified portfolios of assets, investments in public equities, private equities, real estate, infrastructure and fixed income instruments are made by CPP Investments.

Headquartered in Toronto, with offices in Hong Kong, London, Luxembourg, Mumbai, New York City, San Francisco, São Paulo and Sydney, CPP Investments is governed and managed independently of the Canada Pension Plan and at arm’s length from governments.

As of Sept. 30, 2019, the CPP Fund totaled Cdn$409.5 billion.

A simple Google search of "CPPIB logistics" will show you just how important logistics properties are to CPPIB's massive real estate portfolio:

- GLP creates €2bn European logistics platform with CPPIB and QuadReal
- CPPIB acquires 8% stake in logistics firm Delhivery
- CPPIB invests $320M to expand footprint in Hong Kong logistics real estate

And on and on, you can read how CPPIB is ramping up its logistics portfolio all over the world.

This latest deal with Goodman focusing on North America is one of several large deals which make perfect long-term sense for any pension fund trying to capitalize on the rise of e-commerce, let alone Canada's massive pension fund.

You can read details of this deal on CPPIB's site here. This is the critical part:

Peter Ballon, Managing Director, Global Head of Real Estate, CPP Investments, said, "With the rapid growth of e-commerce in the U.S. and ongoing supply-chain modernization, **fundamentals in the logistics sector continue to strengthen, particularly in strong urban markets, reflected by record sustained rent growth and occupancy levels. Through GNAP, CPP Investments is well positioned to capitalize on these structural shifts**."

I also read up on Goodman and it's a great partner to have in logistics:

Goodman is a global property group. We own, develop and manage industrial real estate in 17 countries including logistics and industrial facilities, warehouses and business parks.

According to its website, Goodman now has over $48 billion in assets under management, has 398 properties under management globally and has over 1,600 customers.

When investing in logistics, you need a great partner and a long-term view and that's exactly what CPPIB has in all these deals.

All of Canada's large pensions are investing in logistics, it's not even a choice if you want to keep up with the growth of e-commerce all over the world.

For example, Ivanhoé Cambridge, the Caisse's real estate subsidiary, just acquired a French logistics portfolio from Carlyle. You can read about that deal here.

In another interesting deal, Don Wilcox of Real Estate News Exchange reports that Google moving its Toronto headquarters and adding Montreal, Waterloo offices:

Google has signed a long-term lease for all 18 floors and 400,000 square feet of office space at the new 65 King East Tower in downtown Toronto.

The agreement was announced Thursday afternoon by Carttera and its ownership partners including OPTrust, Manitoba Civil Service Superannuation Board and Investment Management Corporation of Ontario.

It is part of a wider announcement by Google which also includes new offices and expansions of the tech and online giant's operations in Montreal and Waterloo.

"We are extremely pleased to announce that 100 per cent of the office floors of 65 King East are now leased to Google: one of the most prominent, influential and well-recognized companies in the world," said Dean Cutting, partner, Carttera, in the release. "Our vision for 65 King East has always been to combine innovative office architecture and an employee-centric workplace design with a dynamic, forward-thinking organization.

"The fact that Google made a long-term commitment to our project is a testament that we are leading the future of innovative office design. We look forward to a long-term collaborative relationship with Google for many years to come."

Rob Douglas, managing director of real estate investments at OPTrust, echoed those sentiments.

“As one of the world’s leading technology companies, Google is also focused on the future and we are thrilled to have reached a long-term commitment on their new Toronto headquarters,” he said in the release.

Google’s other new offices

While the owners of 65 King East are expressing their delight, it’s also a good day for another office owner. Allied Properties REIT will welcome Google to two of its major holdings in Montreal and Kitchener.

Google said it will establish an office for up to 1,000 employees at 425 Viger West in Montreal. All of its Montreal-based software developers, game developers, sales leaders, AI researchers and Cloud experts will move to the new office.

The new Viger space will span five floors of the building. 425 Viger West is a 200,000-square-foot facility which is being retrofit and expanded by Allied to add another 100,000 square feet of space.

In an interview with RENX a few months ago, CEO Michael Emory said the building was almost fully leased.

Google will also be launching the first Google for Startups Accelerator in Canada at the Breithaupt Block Phase III, a new office building currently under development in Kitchener, east of Toronto.

The 11-storey, 294,054-square-foot Phase III building is adjacent to Google’s current office in the two existing buildings at Breithaupt Block (which has been its largest Canadian location).

The accelerator will be Google’s 12th accelerator globally and facilitate the company’s work with emerging Canadian companies.

The Breithaupt Block Phase III is being developed by a partnership between Allied and Perimeter Developments. Google's lease will be for 15 years and the $157-million building is expected to be ready for occupancy starting in 2022.

The three new offices will give Google the capacity to expand its Canadian workforce from about 1,500 to 5,000 employees.

65 King East in downtown Toronto

65 King East is currently being built by PCL Construction. The design is a collaboration between world-renowned architects IBI Group and WZMH Architects.

Located in the St. Lawrence neighbourhood, 65 King East is steps from the financial core at King and Yonge and is less than a 10-minute walk to Union Station with seamless connections to the TTC, Go Transit, Via Rail and the UP Express.

65 King East has dedicated approximately 18,000 square feet of terrace space over eight floors, offering expansive views of the city and lake, and is designed with a raised floor HVAC system and exposed concrete ceilings.

It includes 196 bike stalls and 10,675 square feet of retail space.

It also incorporates smart building technologies and sustainability. With Wired Score Gold already accomplished, 65 King East has been designed to achieve LEED Gold certification.

Google's tenancy is a consolidation and relocation of offices in the Greater Toronto Area, with occupancy expected in 2021. The transaction also consolidates another major technology player in downtown

Toronto's burgeoning, and rapidly expanding, tech sector.

"Carttera built 65 King East with next-generation tenants and an evolving downtown core in mind," said Jeff Friedman, the executive vice-president office leasing for CBRE, in the release.

CBRE brokered the lease.

"Google's decision to make 65 King East its new Toronto headquarters underscores the degree to which Toronto's downtown core continues to expand.

"This is a significant statement of confidence in Toronto's tech market and talent pool."

About OPTrust

With net assets of almost $20 billion, OPTrust invests and manages one of Canada's largest pension funds and administers the OPSEU Pension Plan, a defined benefit plan with almost 95,000 members and retirees.

OPTrust was established to give plan members and the Government of Ontario an equal voice in the administration of the plan and the investment of its assets through joint trusteeship.

OPTrust is governed by a 10-member Board of Trustees, five of whom are appointed by OPSEU and five by the Government of Ontario.

About Carttera

Carttera is a Canadian real estate investment fund manager and developer. The firm invests its capital in innovative urban intensification development projects and is a leader in environmental sustainability in the Canadian development industry.

Carttera has developed projects extending to over $3.3 billion in total value since its inception in 2005, with primary holdings concentrated in the GTA and Montreal.

The firm’s projects include a wide range of product types including office, mixed-use, industrial, condominiums and rental apartments.

About CBRE

CBRE Group, a Fortune 500 and S&P 500 company headquartered in Los Angeles, is the world’s largest commercial real estate services and investment firm (based on 2018 revenue).

The company has more than 90,000 employees and serves real estate investors and occupiers through more than 480 offices (excluding affiliates) worldwide.

CBRE offers a broad range of integrated services, including facilities, transaction and project management; property management; investment management; appraisal and valuation; property leasing; strategic consulting; property sales; mortgage services and development services.

In Canada, CBRE Limited employs 2,200 in 22 locations from coast to coast.

You can read OPTrust's press release on this deal here. I note the following:

65 King East is owned by Carttera in **conjunction with institutional co-investors OPTrust, Manitoba Civil Service Superannuation Board and IMCO**, who will collectively be the long-term holders of the asset. The development’s design is a collaboration between world-renowned architects IBI Group and WZMH Architects and is currently being built by PCL Construction. Google’s tenancy is a consolidation and relocation of offices in the Greater Toronto Area, with occupancy expected in 2021.

So, both OPTrust and IMCO will benefit from this deal. IMCO's press release echoes OPTrust's and I think it's worth reading it:

Carttera Private Equities Inc. (Carttera) announces a major, long-term, downtown Toronto office leasing transaction at 65 King East, which will be home to Google, occupying 400,000 sf of office space across 18 floors in Toronto’s newest, next-generation office development.

”We are extremely pleased to announce that 100% of the office floors of 65 King East are now leased to Google: one of the most prominent, influential and well-recognized companies in the world. Our vision for 65 King East has always been to combine innovative office architecture and an employee-centric workplace design with a dynamic, forward-thinking organization. Google truly recognizes how 65 King East promotes sustainability, employee wellness, collaboration, productivity and health,” said Dean Cutting, Partner, Carttera. **“The fact that Google made a long-term commitment to our project is a testament that we are leading the future of innovative office design. We look forward to a long-term collaborative relationship with Google for many years to come.”**

65 King East is owned by Carttera in conjunction with institutional co-investors: OPTrust, Manitoba Civil Service Superannuation Board and Investment Management Corporation of Ontario, which will be the long-term holders of the asset. The development’s design is a collaboration between world-renowned architects IBI Group and WZMH Architects. **65 King East is currently being built by PCL Construction. Google’s tenancy is a consolidation and relocation of offices in the Greater Toronto Area, with occupancy expected in 2021.**

“Carttera built 65 King East with next-generation tenants and an evolving downtown core in mind,” said Jeff Friedman, Executive Vice President Office Leasing, CBRE. “Google’s decision to make 65 King East its new Toronto headquarters underscores the degree to which Toronto’s downtown core continues to expand. This is a significant

statement of confidence in Toronto's tech market and talent pool."

Together with the efforts of CBRE, this significant transaction is a great match for the growing downtown core, bringing innovation and tech giants into the fold of Toronto's tight office real estate market. With proximity to the TTC and Union Station, this office building also features over 18,000 sf of outdoor terraces, 196 bike stalls and 10,675 sf of retail space, while also incorporating smart building technologies and sustainability. **With Wired Score Gold already accomplished, 65 King East has been designed to achieve LEED Gold certification.**

Not only will IMCO, OPTrust and Manitoba Civil Service Superannuation Board have Google as an anchor tenant at 65 King East, they will also boast that the building has been designed to achieve LEED Gold certification which will help with their ESG investing focus and lower Google's lease rate in this long-term lease (LEED buildings are more energy efficient and prospective tenants look for them to lower their carbon footprint).

By the way, this isn't the only LEED Gold building OPTrust has. First Gulf and OPTrust recently announced that 351 King Street East, officially known as The Globe and Mail Centre, has been distinguished as LEED® Gold by the Canada Green Building Council:

The award recognizes First Gulf and OPTrust's commitment to sustainability and the environment both in the construction and the ongoing management of the base building.

Anyway, back to 65 King East and Google. This is obviously a great long-term deal with a great partner (Carttera), but to really understand why, you must read an article Don Wilcox wrote last year on why technology will likely be Canada's savior if a recession hits.

Wilcox covered CBRE's Paul Morassutti's annual state-of-the-economy presentation focused on Canada's booming tech sector, where he noted:

"Some say a recession is looming, sounds ominous," he said during a keynote address. "This morning, we're going to explain why there may be less to fear in the Canadian commercial real estate market than many would have you believe. We will also discuss why we believe Canada's most valuable resource has nothing to do with energy, minerals or anything else that comes from the ground.

"In real estate, identifying areas of growth is fundamental. Increasingly, the areas of growth in Canada are all about technology and our growing knowledge economy. Technology is the catalyst, change agent and king-maker and its impact is rippling through every sector of our market."

Canada well-positioned if recession hits

Morassutti, CBRE's vice-chairman of valuation and advisory services, said the rising interest rate environment, combined with historically high global debt, will undoubtedly lead to a reckoning. However, he said economies positioned to benefit from new technologies and lifestyle trends should weather the worst of whatever storms are coming.

He noted the innovation sector extends well beyond what many people think of as traditional "technology" into virtually every aspect of Canadians' lives.

"Tech has become so ubiquitous across Canadian industries the true impact the tech sector has on Canada's economy has been understated. CBRE research estimates that for every tech employee hired at a tech firm between 2012 and 2017, there were three more tech employees hired by non-tech firms.

"Loblaws for example, a grocer, employs almost a thousand people in its AI digital division.

"When you look at it this way, Canada's tech sector is exceptionally diverse and has a multiplying effect on the economy. But even more important is the rate of growth. **Over the past 10 years, tech has grown at more than 2.5 times the pace of the energy sector and three times the overall economy**."

Support for innovation from both the private sector and governments has made Canada a true leader in technology and innovation — and that is driving many of the commercial real estate trends today across the country. He pointed out Canada was the first country to create a national artificial intelligence strategy, and the creation of incubators such as MARS district in Toronto opened the door for innovators to become established and grow.

Toronto a "global tech powerhouse"

"In 2017, Toronto produced more tech jobs than San Fran, Seattle and Washington, D.C. combined," he said. "Toronto has emerged as the undisputed tech capital of Canada and is a global tech powerhouse and it is no coincidence that our downtown office vacancy rate now sits at a 26-year low.

"In Ottawa, tech companies are now the biggest (private sector) tenants, second only to the federal government, occupying more space than the accounting and legal sectors combined."

Toronto's office development pipeline of 10 million square feet under construction is 58 per cent pre-leased. Twenty per cent of that is tech sector space, despite the sector historically accounting for only four per cent of total occupancy. Microsoft is moving into the downtown core, taking a landmark 132,000-square-foot lease at the new CIBC Square.

"Tech companies anchoring new buildings is something we have virtually never seen before," he said.

That expansion is occurring across the GTA and surrounding areas.

“Waterloo region and Toronto form the second-largest tech cluster in North America. This corridor, dubbed Silicon Valley North, encompasses 15,000 tech companies, 200,000 tech workers, and over 5,0o0 tech startups and 16 universities and colleges and is a testament to our tech strength.”

Vancouver and Montreal have also taken great strides, and other Canadian cities have been creating niches for themselves.

In case you haven't noticed, the S&P 500 is making record gains **led by technology shares**. The Nasdaq is closing in on 10,000 and if you ask me, that's a testament as to how ubiquitous and omnipotent technology has become to the global economy and our everyday lives.

Corononavirus, shcmoronavirus! No match for Apple, Amazon, Microsoft, Google, Facebook and other tech giants. It's all about AI and cloud computing and there's intense competition for talent.

That's why you're seeing tech companies anchoring new buildings in the GTA and surrounding areas.

Speaking of surrounding areas, last month, Colin McClelland of the National Post reported that Oxford and AIMCo target Mississauga to develop 'largest mixed-use downtown development' in Canada:

Developers backed by Ontario and Alberta pension funds plan to transform a swath of parking lots around a Mississauga mall into a high-density living and working zone in one of Canada’s largest urban redevelopments, apparently drawn by the booming city next to Toronto.

Oxford Properties Group and Alberta Investment Management Corp. said they will develop “the largest mixed-use downtown development in Canadian history.” There’s no cost estimate on the project, Oxford said Wednesday in an emailed reply to questions.

Toronto-based Oxford has $60 billion in global real estate assets and is the real estate arm of the Ontario Municipal Employees Retirement System (OMERS) pension fund, while Edmonton-based Alberta Investment Management Corp. controls about $115 billion in assets and is a Crown corporation of the Western province.

The plan to turn underutilized land into offices, apartments and shops will measure 1.67 million square metres, compared with the 929,000 square metres planned for Toronto's East Harbour, Oxford said. Its plan will house about 35,000 people across some 53 hectares around the Square One Shopping Centre in downtown Mississauga, the companies said.

The developers are betting on the lack of housing in the Greater Toronto area to drive demand where Mississauga, a city of about 722,000 people in 2016, serves as a bedroom commuter city for the wider region, attracting new immigrants with home prices cheaper than the big city next door, and businesses keen for its highways and proximity to Toronto's Pearson International Airport.

"The population of downtown Mississauga is expected to double over the next 20 years," Oxford spokesman Daniel O'Donnell said by email. "That means we need to build more homes for people to live in and provide greater rental options to make renting a long-term option for families."

Construction by the Daniels Corp. is to start this summer on two residential towers of 36 and 48 storeys, with the full development including office blocks to take place over decades as it ties in with the planned Hurontario Light Rapid Transit system, the developers said.

Mississauga, Canada's sixth-largest city, according to Statistics Canada, is already backing another large redevelopment, the 72-hectare

Lakeview Village where a coal-power generating station used to operate on the Lake Ontario shore.

Rogers Real Estate Development has started building a $1.5-billion project of 10 condo towers a stone’s throw from Square One. The city, Sheridan College and Ryerson University are partnering to create a business innovation hub in the downtown.

More than half of the 18,000 units planned for the Square One development are to be for rent, the developers said. The project will centre on a pedestrian-friendly civic space called The Strand as well as the existing mall, which boasts $500 million in improvements over the past five years including an expanded restaurant and bar area, the builders said.

Condominiums are to go on sale this spring when Oxford will also begin marketing office space, it said. The developer will use its experience building zero-carbon office towers to make Square One’s sustainable, it said.

“With the Hurontario LRT being built and a transit mobility-hub a key part of our plans, it gives us the opportunity to create a transit-connected and walkable downtown for Mississauga,” O’Donnell said. “The entire development will be anchored by Square One Shopping Centre, which is one of the best performing malls in North America.”

Boy, how times have changed! I remember when Mississauga was considered a dump of a city and nobody wanted to live there. Not any longer, this development will totally transform it for the better and bring it to be a legitimate extension of Toronto (Note: To be fair, the last time I visited Mississauga was over 30 years ago, so don't take my antiquated observations to heart).

Anyway, I covered some major real estate transactions going over logistics, technology and urban redevelopment.

I realize I don't cover real estate as closely as other asset classes but it's a very important asset class which delivers steady, long-term income to Canada's large pensions.

Finally, I'd like to thank **Catherine Ann Marshall, Principal Consultant at RealAlts**, who read my last comment behind private equity's veneer, and shared this with me:

As a researcher I have worked with private investments' data for many years. There is only one data set that is created so that a clear picture is available for private equity and infrastructure, and that is Burgiss. **The data is not cheap and they are pretty secretive. But that is the only thing I think can be relied on for definitive conclusions.**

I thank Catherine Ann for bringing Burgiss to my attention and sharing her insights with my readers.