



Q+A: BGO's Baweja on getting to \$6bn in separate accounts in Canada

The Toronto-based investment manager aims to double its SMA portfolio

by **Matt Lamers**

BGO aims at roughly doubling its Canadian separately managed accounts portfolio to \$6bn to capitalize on increasing domestic and foreign institutional interest in the country's real estate.

The goal is to hit the bull's-eye over the next five years, and the man holding the arrow for the global investment manager is Chetan Baweja, head of the Canadian value-added and separately managed accounts platform.

Green Street News spoke with him about his near and long-term goals and what positions Toronto-based BGO to capitalize on this growing segment.

Can you paint a picture of BGO's SMA portfolio in Canada now, and where you would like to take it?

Today, we're at roughly \$3bn. We have several institutional clients. That excludes Sun Life, which has its own dedicated SMA and portfolio management team.

My top objectives are to deliver strong performance and strategic growth to ensure our existing clients are achieving their financial benchmarks, their returns, putting an emphasis on active management, making sure those existing clients are satisfied and delivering on our mutual objectives.

On the growth side, overall in the next five years, we're looking to double the business.

We're going to do that by focusing on performance, on being high-conviction investors, and leveraging our full expertise in the platform to ensure that we can grow both existing accounts and new accounts.

We see there's a trend of large Canadian and some global institutions looking for SMAs – and even some midsize – that are starting to look more broadly for the right investment manager. We feel pretty strongly we can be that investment manager.

We're really going to push hard when it comes from an operations efficiency perspective – leasing, focusing on performance, execution and on being thoughtful and strategic.

Where do you want to invest now, and where don't you?

We look at all primary asset types – office, retail, industrial and multi-res – as having great investment opportunities. Those primary sectors are where we will be focused.

We are more of a major-markets focus, so the top six markets in Canada and sub-markets that are growing around Toronto and Vancouver.

Something the firm really likes now that we spent time evaluating from a research and data perspective is "missing middle" housing, so low- to midrise multifamily housing.

If you look at Europe and parts of the U.S. – the U.S. has garden-style apartments, Europe has a lot of housing on major streets. They have four- to six-storey apartment buildings that are a good rent price point that are livable. Canada, in our major markets, particularly in Toronto and Vancouver, is missing that, both in our urban centres but also suburban.

How do you do that at scale when you're a large institution?

Our view is, let's build a portfolio of this. We think it's the housing [Canada] needs. We can build a portfolio across the country and have it become a big part of an SMA, core or value-add portfolio.

We created a project team to [identify] the type of sites we like. We created a research model to look at markets where we think there's the biggest demand, lack of supply and strong demographic trends. And then we created investment criteria to say to our investment team, "Here [are] the type of sites, layouts, the areas of the cities we want to go after."

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We went on a sourcing expedition to find these sites and created a clear program that makes it more repeatable.

Some high-rise projects take four, five, six years, but if you have to entitle them, they can take significantly longer. But a lot of cities now are becoming more favourable on zoning, where they're creating broader permissions to build as-of-right six storeys, for example.

Typically, we're targeting four to six stories. I believe you can build this product in two to three years. So within a five-year period, you could have thousands of units of this product in these major markets, because the zoning is more open to it. It costs less to build. It's more sustainable.

What other asset classes catch your eye?

We think the supply-demand picture for small- to mid-bay industrial is really strong.

It is the heart of [Canada's] manufacturing or industrial warehousing businesses.

We want to buy more small- to mid-bay industrial, improve the quality and lease it to tenants that are the lifeline of Canadian industrial business.

Office is starting to come back. We like higher-quality office; it can be urban or it can be suburban. We want to either make sure it is high quality or, if we buy it, we can improve the quality to offer the type of office experience that tenants today want.

In retail, the area we've been more focused on is open-air retail – usually needs-based. Think grocery, pharmacy, wine and liquor stores – that product.

I particularly think that if you want to create a little more value, find open-air centres that could use additional necessity-based tenancies.

Are separate accounts seeing increased popularity among institutions?

The answer is mixed.

There's been a trend with smaller and midsize groups to shift out of SMAs and go into indirect investing through funds, so that they can invest more broadly, globally, and can invest in different risk curves – core, core-plus and value-add.

Where we're seeing significantly more interest in SMAs is from larger institutional investors. I think there are a few reasons for that. Among the larger institutional investor base in Canada, there was an increasing trend of diversifying globally. At the same time, they haven't necessarily grown their real estate portfolio in Canada.

However, we're coming into a really attractive buying environment. We're at a low part of the real estate cycle, and so



Chetan Baweja

it seems like a good entry point to rebuild a direct real estate portfolio through an SMA in Canada, where you may be able to buy at a more attractive pricing and grow real estate exposure.

The other element is that when there's more economic uncertainty, when there's more volatility globally, Canada tends to shine. We're actually seeing a lot of international investors look at Canada and say, "Okay, I can get a good return level. It's a more stable geopolitical environment, and I see upward potential because real estate fundamentals

are still healthy, and I like the supply-demand picture."

Overall, I'd say interest is growing really well. And that's largely due to both large institutional interest in Canada and from abroad ... that want these direct real estate portfolios.

What does an average investor in the space look like?

It's majority large institutions, pension funds, sovereign wealth funds.

We have a number of institutional clients who have had an SMA for years here at BGO, where they would say, "We'll invest in funds, but we want to own real estate directly. Here's what we want to invest in, BGO, so come up with a strategy for us that hits on these risk-return tolerances."

At times, you see family offices and high-net-worth individuals that own direct real estate.

That's becoming an increasing trend, where family wealth gets significant and they'd say, "We can't be managing real estate on our own. Let's hire an investment manager and create an SMA strategy."

Can you talk about how BGO is positioned to capitalize on this market?

We are sector and region experts. Today, we manage over 70m sq ft, and that level of data, intel, gives us industrial experts, office experts, retail experts, and we have a separate residential platform. When you put that all together, we get a really good sense of where we are seeing strong rent growth, and where the operational challenges are.

That level of intel, data and scale presents opportunities for us to source really well and execute with more certainty and control.

When new SMA clients come to us, they're looking for deal-flow. They want to make sure we will be able to buy real estate and execute. So, you don't need to go anywhere else because everything's going to get executed under one roof.

With the world being a bit more volatile, having that certainty in one place provides more certainty of execution.

The other thing is, we have a dedicated SMA team for portfolio management. They have one objective – to satisfy our clients and drive strong growth for our clients.