Analysis

Inside Toronto Transit's real estate portfolio overhaul

The Canadian pension's chief investment officer, Andrew Greene, tells Greg Dool why it plans to transition its real estate portfolio from mostly direct holdings to majority fund commitments

The Toronto Transit Commission Pension Plan is an outlier among Toronto's public-sector retirement systems. Resisting a wave of consolidation in the last decade where nearly every other city worker pension was absorbed by the much larger Ontario Municipal Employees Retirement System, the public transport agency opted in 2016 to transfer the management of its pension fund from an in-house team to an independent entity governed by a board of TTC and Amalgamated Transit Union appointees.

Eight years later, TTCPP remains a small pension compared to its Maple 8 peers, managing approximately C$9 billion ($6.3 billion; €6.0 billion) in assets, 12 percent of which is real estate. But after growing its private markets exposure from 20 percent of fund value in 2017 to more than 40 percent today, the pension has serious ambitions for its real estate portfolio, says chief investment officer Andrew Greene. These involve not only rebalancing its sector exposures, but also shifting from mostly direct investments to larger and more frequent fund commitments.

"We need to transition from this directly held portfolio. Right now, we're 80 percent direct, 20 percent funds. I would almost like to flip that over," Greene tells *PERE*, adding that 60 percent fund commitments and 40 percent direct and co-investments would be a more ideal mix. "I think that is a better fit for a team our size."

To that end, TTCPP in November hired Miami-based manager BGO to both manage its existing 1.7 million-square-foot, eight-property portfolio of Canadian industrial, retail and office properties, and support its ambition of assembling a global real estate portfolio with greater exposure to the US and Europe.

The latter aspect of the partnership involves the formation of a separately managed account led by BGO managing director Chetan Baweja, who also runs the firm's Canadian value-add strategies.

Greene says both the shift to more fund investments and the decision to work with BGO represent a more sustainable approach to growing the pension's real estate portfolio, given its small investment team and limited experience in the asset class.

"Frankly, we're not real estate experts," he says. "I don't think we should own direct. It's too concentrated."

TTCPP will have discretion over any investments made on behalf of the SMA – Greene says he expects the pension to make two or three real estate fund commitments this year. Partnering with BGO allows it to take a hands-on approach to the asset class while gaining access to a much broader universe of closed-end vehicles and co-investment opportunities, he adds.

"We really like that they're fully integrated. We didn't want to hire a separate asset manager and property manager. And to BGO's credit, it didn't staple a commitment to it."

'A good time to buy'

Greene joined TTCPP as a contractor in 2017 before becoming its first dedicated investment professional in 2019 after the pension fund's spin-out from the TTC was complete. The real estate portfolio previously consisted of direct, long-term investments in a dozen office and retail assets across Canada.

"We didn't have really any residential and we needed to diversify," Greene says.

That need became even more pressing after 2020, when the covid-19 pandemic sent office values plummeting. To begin rebalancing the portfolio, TTCPP's initial plan was to transfer its core office and retail properties in exchange for equity in an open-end vehicle.

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"That would have been the ideal scenario, but valuations are at a cyclical low and the pricing on the open-end funds still hasn't come down," adds Greene.

Instead, the fund will look for opportunities to sell some of those assets individually this year and the next to free up liquidity for new investments. Its ability to up its residential exposure and write bigger fund checks will be predicated on how quickly it can divest its existing assets.

"The good news is the board is not pushing us to sell. We will sell at reasonable prices," Greene says. "I don't want to sell at 60 cents on the dollar, but am I willing to take 70 cents on the dollar and go invest it in something else? I've got a couple of those I would."

Greene declines to share details on specific properties, but says TTCPP has made divestments in British Columbia over the last few years. Meanwhile, the investor also has made some initial fund commitments, including €50 million in 2022 to London-based Henderson Park's Henderson Park Real Estate Fund II, a value-add vehicle targeting residential and hospitality assets.

"We did want European exposure," Greene says of the Henderson Park commitment, which was TTCPP's first pledge to a Europe-focused fund. "The other thing I found very attractive is that they're small. I looked at their Fund 1 and we weren't quite ready then. But we got to know them and, to their credit, they stayed in touch with us and kept us abreast of what was going on. Henderson Park gives us a lot of transparency. And with a smaller manager, you get access to the key people. It's been a good relationship."

The pension is currently assessing other value-add vehicles, including one focused on Canada and others targeting the US and Europe, as well as residential-focused funds. "The US is obviously an area where we want to focus on more and also continue to add a bit in Europe," Greene says.

TTCPP has a target real estate allocation of 12 percent, the same as infrastructure, which together make up a 24 percent target allocation to real assets. But the investment team is authorized to go up to 5 percent above or below those levels.

"For the last two years, we've leaned a little bit more into infrastructure than real estate, given the uncertainties there and the opportunities we've seen," Greene says. "But real estate is starting to look more attractive again and it's still a very significant part of the portfolio.

"I'd love to be a buyer of real estate right now. I don't know that I'll always love being a holder of real estate, but it would seem like a good time to buy." ■