Green Street News

DELIVERING EXCLUSIVE CRE NEWS

BGO's new Canada CIO aims to unleash real estate giant's buying power

BGO is casting a wide net for buying opportunities in Canada

by Matt Lamers

BGO's Simon Holmes has been promoted to chief investment officer in Canada, where he will play a central role in executing on opportunities as the real estate giant pivots to a net buyer stance, Green Street News can reveal.

Holmes took up the position on Oct. 1, leading the investment team responsible for the firm's Canadian real estate transaction activity.

He maintains his position as leader and portfolio manager for the firm's flagship Canadian core strategy via the $6.4bn Prime Canadian Property Strategy. Holmes also became chair of BGO Canada's management investment committee.

His promotion comes as BGO looks to cast a wide net for buying opportunities in Canada, after reaping the rewards of the disposal of $2bn of assets during the pandemic – including nearly $1bn of office properties – from its Canadian core strategy.

The expanded position means Holmes will continue to be responsible for the core fund's strategy, performance, governance and investor relations.

Holmes started his career with BGO in 2003, then spent a decade at CPP Investments starting in 2006, before rejoining BGO in 2016. He brings over 20 years of real estate experience in investments, portfolio and asset management, joint-venture structuring, capital raising, and client relations, governance and research.

Green Street News spoke with Holmes about his new position, BGO's spending program for the upcoming year and where he sees growth opportunities.

What objectives do you have in the near term?

We're at an interesting time in the market from a timing perspective. The headwinds we've seen in the commercial real estate market over the last couple of years I think are subsiding and are in the very early stages of turning to tailwinds.

Positioning BGO in Canada to take advantage of that from a transaction standpoint probably is a top priority.

We think it's a good time to be a buyer, but selectively.

Where do you see growth opportunities?

In years past, the real wins and fund performance were determined by whether you were overweight in industrial and underweight in office, so really it was about sector allocations and weightings.

Today as I look at pricing across the four major property types, I'd say the divergent paths of future fundamentals across sectors is essentially fully priced in. Sectors where there's positive trajectory – say, multifamily – you're paying for that because the cap rates are in the low to mid-4s for a good multifamily property. There's a wide going-in cap-rate spread that I think reflects future fundamentals.

Sectors are appropriately priced. The real opportunity is going back to what real estate typically is, to be market and asset selectors. The groups that do that well will be rewarded, as long as they can execute on how they see the market today.

Any asset class in particular?

We're casting a wide net. All four property types are on the target list – and certainly we were among the first movers to sell down office when Covid hit. That's positioned us well.

The market conviction we had, to be significant sellers of office in 2021 and early 2022, has positioned us well, but as we look at selective opportunities to get back into office, that's definitely on the radar. We're seeing day in and day out at our assets – employees are coming back to the office in a more significant way than they were a year ago.

But it's going to be selective, so it's all about asset selection and being able to execute on a strategy that's going to position an office building you do own appropriately so you do get the benefit of flight to quality.

See BGO on Page 2

Green Street News

DELIVERING EXCLUSIVE CRE NEWS

BGO ... From Page 1

Can you talk about the current status of BGO's core strategy in Canada?

I will remain as the lead portfolio manager for that. It has a 41-year track record. The real strategy there is core, income-focused, diversified exposure for high-quality assets in major Canadian markets.

By virtue of the fact we executed on a very significant portfolio restructuring over the last few years, that fund is well positioned, and we're now seeing the benefits [including] significant inflows into the fund from new investor commitments – significant in the context of a $6.4bn strategy.

That gives us the fortunate position to be able to be active and be buyers in today's market, while there's a bit of a window of opportunity to buy properties with attractive yields at below-replacement costs.

What does the next phase of growth look like for the core strategy?

We've been net sellers over the last few years as we've worked to restructure and reposition the [Canadian] strategy. That effort is now complete, so we will be very much active, essentially entirely on the buy side.

We closed on a new multifamily acquisition last week, and we've got a very active pipeline. It's broad-based – it's industrial, cold storage, multifamily and apartment, and it's grocery-anchored retail, in terms of specific activity right now, but we'll continue to cast a net looking for buying opportunities.

We've identified and executed on a program to grow our multifamily-apartment exposure, and we're really looking for diversification. Historically, we concentrated on central areas in major markets, but as we look across the country, we very much want to have diversification by market, submarket and price point.

The acquisition we completed last week was for a brand-new apartment [building] in Pickering, which is a suburb of Toronto, so it helped round out our exposure and build out the suburban Toronto asset base, which is a critical strategy, and it provides diversification in terms of price point.

How has the formula for the core strategy changed from pandemic-era issues to today?

When Covid hit, the investment thesis was that real estate across the four major property types was going to be impacted and in fairly profound ways. So we developed a strategy to be a first mover and execute with conviction on a very comprehensive repositioning that resulted in the sale of 31 assets, $2bn in dispositions – so, a very significant effort even in the context of a core strategy as big as ours. It was really in large part to position the core strategy for a rapidly evolving landscape.

Key to that was our office disposition strategy. We sold 12 office assets for proceeds of close to $1bn. That positioned us well, and it really was about downside protection and protecting our investor base from some very negative outcomes.

We were first movers to reposition the portfolio in a profound way to position it for future fundamentals, and now we're seeing the benefit of that in terms of those inflows that allow us to grow and target acquisitions in our target segments – casting a wide net to really focus on high-quality and income-producing properties across all sectors.

What do you want the industry to know about BGO's plans for the coming year?

As we think about how BGO is positioned in the Canadian market, we are unique in that we have the benefits of a true global platform with $114bn of assets under management.

We are also fully vertically integrated in Canada – one of the largest managers in Canada, with 69m sq ft under management. That combination truly is very powerful – to have the ability to draw on the experience of our colleagues in the U.S., Asia and Europe is important, and to have the real-time information provided by our boots on the ground with over 1,000 employees in Canada, across investment management, property management and leasing.

That combination gives us an information advantage and an execution advantage.