

SPECIAL PROMOTIONAL FEATURE

## INVESTING

# Why BGO believes now is a great time to invest in Canadian core real estate

Managing partner of BGO's core strategy sees growing opportunities in Canadian commercial real estate, and dispels some myths about Canada

**BGO'S ROOTS** in Canada run deep, and with one of the largest dedicated commercial real estate teams in the country, the firm has stood the test of time through economic cycles over the past century. The diversified firm, now with an expanded presence in the US, Europe, and Asia, still sees Canada through fresh and optimistic eyes.

Simon Holmes, managing partner and portfolio manager for BGO's flagship core strategy in Canada, sat down with *BPM* to share his firm's view of Canada and why this inflection point in the market has him bullish about current investment opportunities.

**Q** BGO views Canada as a market of significant importance to their global business. What's driving the firm's belief in the Canadian market today regarding commercial real estate?

**Simon Holmes:** Canada has historically offered a few key elements: geopolitical stability, the resilience of its capital markets, and strong property fundamentals across major metropolitan areas. Canadian real estate has been defined by disciplined long-term ownership across most sectors, with low leverage.



Simon Holmes, managing partner and portfolio manager

At the asset level, most major Canadian markets remain relatively strong. Vacancy is at or near historic lows across most property types. That's very different from the dynamics in other developed markets.

Today, in addition to that stability and those three factors, major markets in Canada offer very compelling growth dynamics.

Major Canadian markets combine the population growth profile of US Sunbelt markets with the real estate

supply constraints common to US coastal markets, which creates conditions for strong long-term rent growth.

We're starting to see this story gaining global recognition. We've seen international investors make some significant investments in the Canadian market in a way they hadn't in years past. In 2023, foreign investors comprised 13 percent of all investment transactions, which is well above the annual average of approximately three percent.

**Q** What are some of the myths around the Canadian market that maybe need to be debunked?

**SH:** A few myths come to mind. The first is that because of its stability, Canada is a low-return market. What we've observed is the opposite: Given the prospects and dynamic of the past few years, we expect significant income growth and compelling returns.

Number two: there's been a myth, at least up until recently, that Canada was a closely held market with owners who rarely sell, and so there are limited transaction opportunities. That's been decisively proven false.

A third myth worth mentioning is specific to the office sector, but not necessarily specific

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to Canada. We see a bifurcation in office. The most modern, best-in-class, “trophy” office buildings continue to be resilient. It’s in the more challenged, older “B/C” class buildings that we’re seeing the weakness in the market.

**Q How do you find opportunities in the market? What factors within the market or the wider economy do you look at, and why should investors be looking at those factors as well?**

**SH:** The experience since interest rates have increased has reminded us of how dependent the entire industry is on macroeconomic factors. Over the past few decades, real estate benefited from steady declines in interest rates. This changed abruptly in 2022, which surprised some and resulted in price declines. However, property occupancy and income remain stable.

There is a disconnect in Canada, where we have strong fundamentals, but capital market dislocation is driving prices down. But now, in spring 2024, we’re relatively confident that we’re at or near bottom from a pricing perspective. We have conviction regarding the outlook for both property fundamentals and investment returns.

Given that dynamic, high-quality core assets in Canada are available today at compelling prices. Going-in yields are higher, and high-quality modern properties are trading below replacement cost. That’s a dynamic that has not existed in a very long time. We view this as a fantastic opportunity to buy high-quality core assets.

**Q As you’re leader of BGO’s Core Strategy in Canada, what asset classes are you paying special attention to?**

**SH:** A few years ago, we would have had a very clear ranking by property type. Return outper-

formance, until very recently, was determined by the sector and property type exposure. Your returns were defined by whether you were underweight in office and malls and overweight in industrial and multifamily rental.

However, as we assess the transaction market today, we expect portfolio return performance will be increasingly determined by asset selection and business plan execution at the individual property level.

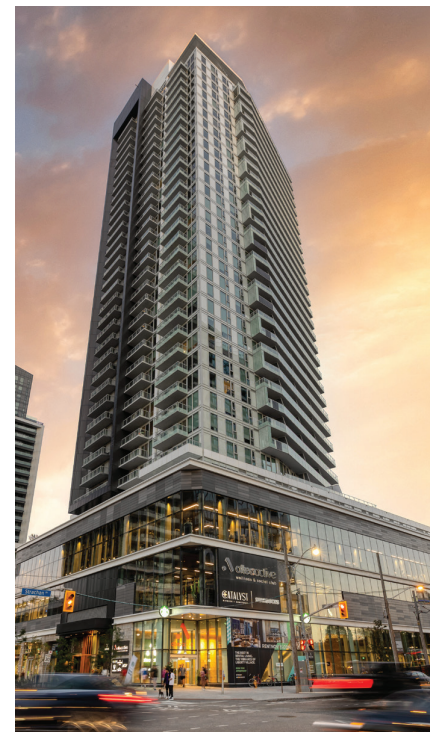
Today, we see compelling value opportunities across the four major property types. Whether it’s industrial, multifamily rental, office, or retail, we’re looking at all four of those sectors and focusing more on property level attributes, rather than focusing on sector weightings to the extent we would have in the past.

**Q As competitive forces in the Canadian market intensify, what advantages does BGO bring that can help deliver better client outcomes?**

**SH:** BGO is well-positioned to capitalize on the dynamics we see in Canada. We are in the very rare position of being a global management platform in 13 countries. When you combine that global footprint with the deep vertical integration and bench strength we have in Canada, we offer a dynamic that other Canadian managers do not have.

The global platform allows for a top-down perspective on key trends. We have information flows in our organization among Canada, the US, Europe, and Asia. That gives us early insight into trends that are unfolding globally that may be coming to Canada.

Our people are our most valuable asset, and with more than 1,400 BGO employees around the world, we’re able to tap into their local networks and on-the-ground expertise.



**“High-quality core assets in Canada are available today at compelling prices”**

Additionally, our firm’s early and extensive investments in proprietary data science and AI-driven models are yielding remarkable insights to help us better evaluate the short- and long-term upsides of markets of interest to BGO. This deeper view that combines our depth of professional talent with BGO’s data science infrastructure means we are poised to deliver more prescient decision-making for our clients. 