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Recession has REITs in retreat
Many selling properties to lighten debt load

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By: Commercial Real Estate / Murray McNeill

Arni Thorsteinson, president and CEO of Huntingdon Real Estate Trust Ltd., in cityplace, which his company recently sold to Manitoba Public Insurance. "We're looking at the sale of other individual assets... to further reduce our debt."

As little as a year ago, Canadian real estate investment trusts were among the darlings of the investment world -- on the rise and in demand.

Now, battered by a deepening global economic recession and a crippling credit crunch, many of them are in full retreat. Lenders and investors are giving them the cold shoulder, unit prices have tanked, and debt reduction, not acquisitions, are top of mind.

Winnipeg has six locally based REITs, and several of them have been active players in the local commercial real estate market.
Lanesborough REIT, for example, owns six apartment blocks in Manitoba. And its sister trust, Huntingdon REIT, owns 37 office, retail and industrial properties in the province.

It had 38 up until last Thursday, when it sold one of the jewels in its portfolio -- the downtown cityplace office/retail complex -- for $80.5 million.

It sold the heritage property so it could reduce its debt load by 20 per cent to $322 million. And CEO Arni Thorsteinson said the following day that more divestitures may soon follow.

"We're looking at the sale of other individual assets... to further reduce our debt."

Lanesborough is also entertaining offers for some of the multi-family residential buildings in its 30-property portfolio.

"There's no pressure to reduce debt there, so we may not sell anything," Thorsteinson said. "But the answer is 'yes, for the right price (we would sell).'"

Another high-profile, Winnipeg-based trust -- Artis REIT -- is also selling off some of its commercial properties and using the proceeds to reduce its debt load and bolster cash reserves.

CEO Armin Martens said two smaller office buildings in Calgary have already been tentatively sold for a total of $25 million.

"And we're in discussions to sell a couple of more properties... by the end of the second quarter (of 2009). Then we'll see what happens after that."

Martens said Artis will likely sell four to six properties altogether -- it owns 80 in Western Canada -- in hopes of raising $50 million to $75 million. While its debt load isn't particularly high -- its total debt to gross book value is 55 per cent -- he said it would like to get it even lower to better position it to pursue acquisition opportunities when the economy recovers.

"We're being extremely cautious and not seeking any new acquisitions right now. We're hoarding our money and managing our operating costs."

One industry analyst said that's what a lot of Canadian REITs are doing.

"Everybody is basically hunkering down right now," said Stephen Sender, managing director and industry head for Scotia Capital Real Estate Inc.

Don White, an investment broker with Colliers Pratt McGarry -- said that's good news for local private equity investors because they don't have to compete with REITs for investment properties.

And while some REITS may be having trouble obtaining financing, White said that's not the case with well-heeled private equity investors.

"Those are the type of people banks and credit unions want to lend to. Is it more difficult and time consuming (to obtain a loan)? Yes.

"But is the money still flowing? The answer is, 'yes.'"

Although Sender said commercial property values have started to decline in some areas of the country, White said that's not the case here because the Manitoba economy continues to outperform those in most other provinces.

And occupancy rates are holding up well, he said.

Sender said the negative fallout from the recession and the financial crisis is most evident in unit values. He said REIT units in Canada are down about 60 per cent from their peak levels in early 2007. While that's worse than the 50 per cent decline for the Toronto Stock Exchange, "they (REIT unit prices) are coming down from a higher level," Sender said.

All of the industry officials who were interviewed said they expect most of Canada's REITs to survive the downturn.

"We went into this recession, as an industry, in very good shape," said Michael Brooks, CEO of the Real Property Association of Canada, the national group that represents REITs and other owners and managers of investment real estate in Canada.

"So by and large they should be able to weather the storm OK."

By the numbers -- local REITs
Here is a snapshot of Winnipeg's six publicly traded REITS:
HUNTINGDON REIT
Asset type: commercial and industrial
Management: Arni Thorsteinson and Shelter Canadian Properties Ltd.
Number of properties: 76
Unit price (Friday close): $6.42 (52-week high: $17.09)

LANESBOROUGH REIT
Asset type -- Multi-family residential buildings
Management -- Arni Thorsteinson and Shelter Corp.
Number of properties: 30
Unit price (Friday close): $2 (52-week high: $5.96)

TEMPLE REIT
Asset type: Hotels
Management -- Arni Thorsteinson and Shelter Corp.
Number of properties: 9
Unit price (Friday close): $4.60 (52-week high: $10.05)

ARTIS REIT
Asset type -- Office, retail and industrial
Management -- Armin and Cornelius Martens and Marwest Management
Number of properties: 80
Unit price (Friday close): $6.42 (52-week high: $17.09)

ALL IN WEST! CAPITAL CORP
Asset type: Hotels
Management: Armin and Cornelius Martens and Marwest Management
Number of properties: 4 (owned)
Unit price (Friday close): 25 cents (52-week high: 76 cents)

LAKEVIEW HOTEL REIT
Asset type -- hotels
Management -- Keith Levit and Lakeview Management
Number of properties: 18 (owned)
Unit price (Friday close): 39 cents (52-week high: $4.10)

-- compiled by Murray McNeill

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