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CC&L has a REIT substitute

Barry Critchley, Financial Post

'Would you like a little real estate with that?" That question was posed to the private clients of money manager CC&L Financial Group and enough of them responded positively that they have just purchased a class A industrial facility in Calgary. That purchase, set to close this week, marks the first time CC&L's private clients, who have about $2.5-billion invested, have been offered a direct stake in commercial real estate – an important asset class that's not normally part of a private client's portfolio.

"This has added a lot to our platform for private clients. To be able to invest directly in real estate without high minimums is a rare thing to be able to do. What we are trying to do is provide a micro version of what the big pension funds have and we are packaging that for a high-net-worth family," said Tim Griffin, president of CC&L's private client group.

CC&L is offering real estate investments after forming a partnership with Crestpoint Real Estate Investments, a firm set up by Kevin Leon, a veteran investment banker who spent the past decade at CIBC World Markets. (Steve Ronald and Juliet Dixon are Crestpoint's other employees.) CC&L has a number of such relationships with a diverse group of asset managers who have a variety of investment styles.

The open-ended real estate fund emerged after Leon and Griffin did a road show with CC&L's clients where they were asked to consider an investment in real estate and, to make a 10% allocation, if they were so inclined. "Most individuals, even if they are high-net-worth, don't have the ability to have a diversified direct exposure to real estate. The only way they can play is through REITs," Leon said.

"We have set up a structure that allows clients some, but not full, liquidity to acquire good office buildings, shopping centres and industrial buildings across the country," Leon said. The aim is to generate annual returns of 8% to 10%, more than half of which will be income.

"We will pay out what we can afford. But we will keep a cushion," said Leon, adding a building in Montreal is the fund's next purchase.

The fund will focus on buildings that generate cash-flow growth over the long term. In contrast, REITs "typically focus on short-term cash flow," said Leon, adding direct real estate has another advantage compared with REITs: There is less correlation with the overall stock market. "That gives you the diversification effect."

The fund, which offers quarterly redemption, raises the equity portion of the purchase through a capital call and funds the rest through leverage. About half the cost will come from debt, a percentage that's in the range for other real estate issuers. The Calgary building was bought with a 20% partner, a property management company.

The fund charges an annual fee and is entitled to performance fees once a target rate of return has been achieved. There are no transaction fees. The portfolio is valued quarterly.