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REITs coming to market even if nobody else is

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Illustrations: Tmx Group Files / HealthLease Properties staff gather to ring the opening bell on the TSX on Aug. 8.;

If Canada's IPO market is in the doldrums, the REIT sector doesn't know anything about it. Nor do the small band of lawyers practising in the area.

On Aug. 8, HealthLease Properties Real Estate Investment Trust rang the opening bell on the TSX to signal the launch of Canada's largest IPO this year. The IPO was also Canada's first "pure play" REIT in the seniors housing sector.

HealthLease, however, wasn't an anomaly. From the beginning of 2012 to the end of July, the Canadian REIT market, including non-convertible debt and preferred share issues, featured about \$4-billion worth of offerings, up from about \$3.2-billion during the same period in 2011. If non-convertible debt is excluded, the comparable numbers are \$3-billion and \$2.4-billion.

Compared to the rest of the market, growth of more than 25% is nothing short of remarkable. But Stephen Pincus, a partner at Goodmans LLP in Toronto, says it would be a mistake to think of REITs' performance this year as a surprise.

"The sector has never ceased being a hot market," he says. "It only looks like a comeback because just about everything else has gone cold."

Mr. Pincus attributes the REIT market's stellar performance and consistency to a low interest rate environment, aging demographics, and economic and market volatility.

"People are fearful and they're looking for hard assets," he says. "REITs have provided and continue to provide a steady stream of cash flow based on contracts with tenants who are largely creditworthy."

Patricia Koval, a partner in the Toronto office of Torys LLP, is of similar mind. "Quite apart from IPOs, existing REITs have been issuing a lot of successful offerings that have been oversubscribed, and there are quite a few new issues on the drawing board," Ms. Koval says. "The future continues to look bright because the demand for residential, retail and commercial tenancies is strong and is expected to remain strong."

Mr. Pincus believes the REIT market will continue to benefit from the migration of enterprises too small to be taken seriously in the United States. "The valuations for REITs are better here and they'll get a lot more attention by going public in Canada."

Mr. Pincus and Ms. Koval are certainly well-placed to know what they're talking about, as their firms, Goodmans and Torys, have dominated the legal advisor REIT

market for years.

From 1996 to date, the TSX has produced 85 REIT IPO mandates for lawyers acting for either issuers or underwriters.

Goodmans has been involved in 21 of these offerings, while Torys has acted on 11.