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Canadian Bacon | Big funds have a taste for riskier U.S. projects, like New York's Hudson Yards

Canada's Oxford Properties is partnering with New York developer Related Cos. on the proposed Manhattan development, shown in a rendering.

From Canada, U.S. Deals Look Ripe

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THE PROPERTY REPORT

The Canadians are coming.

Pension funds north of the border have poured about $9 billion into U.S. commercial real estate in the past three years, after largely steering clear of owning hotels, office buildings and apartments in the U.S. before then.

While there are only a handful of big funds that are active abroad, they are having a disproportionate impact on the U.S. market by funding ambitious plans that domestic investors have been afraid to touch.

Canadians funds see value in the U.S. as they expand beyond their own overheated property market. And, since the Canadian market wasn't hit as badly as the U.S. during the financial downturn, these pension funds are less gun shy about putting money to work in riskier projects.

Ivanhoe Cambridge, the real-estate investor for **Caisse de depot et placement du Quebec**, in May said it was investing $300 million to build a 45-story office tower in the West Loop of downtown Chicago. When completed, the 900,000-square-foot project will be the largest-size new property development in five years in that city at a time when no other major office projects are underway.

Oxford Properties, the real-estate investor for the Ontario Municipal Employees Retirement System, is joining up with New York developer **Related Cos.** on Hudson Yards, a massive $15 billion residential and commercial project on Manhattan's West Side.

Oxford has about $20 billion in property investments, prima-

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Canada Funds Look to U.S.

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rily in Canada, but is ramping up quickly in the U.S. It has invested $1.5 billion in U.S. real estate and says it expects that to rise to $5 billion by 2015.

Last month, Oxford announced that it is part of a joint venture to build a $450 million project in Washington, with 620,000 square feet of office space, plus ground-floor retail and an atrium.

"The majority of institutional investors would say the U.S. is No. 1 on their list today," says William Tresham, president of global investments for Ivanhoe Cambridge. "People are concerned where Europe is heading. Asian markets aren't well understood. Canadian assets are around an all-time high."

Canadian commercial-property prices fell during the financial crisis but not as sharply as in the U.S., says Ross Moore, head of Canadian research at **CBRE Group** Inc. Canadian values are now close to record levels seen in 2007. Investment volume, unlike in the U.S., also is hovering near peak levels.

That hyperventilating market has some worried about another correction. It is one reason why Canadian fund managers say they are more comfortable with the risks associated with new development abroad. "If we have to develop new projects to get returns, we're comfortable with that risk," says Neil Jacob, head of the U.S. region for Oxford

The Canadian investment spree offers a contrast to many large U.S. public pension funds, which have retreated after starting a decade ago to move further out on the risk spectrum. Many of those speculative bets blew up when the property bubble burst.

The **California Public Employees' Retirement System**, the largest U.S. public pension with about $250 billion in assets, saw the value of its real-estate portfolio halved for the year ending in June 2009. Since then, Calpers has favored safer property investments, such as fully leased office buildings that eliminate the risk of finding new tenants. Its returns bounced back a bit, rising to around 14.3% for the year ending in June, to bring its property assets to around $21 billion.

Other large funds, from the Ohio Public Employees' Retirement System to **New York State Common Retirement Fund**, also have been turning their emphasis toward the same conservative property investments.

But during the crisis, many of the larger Canadian pension plans had most of their real-estate exposure in their own back-

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yard, where property prices proved more stable.

The danger is that some of these new developments never get completed, or end up costing more than anticipated, cutting into income. If the U.S. economy goes into another tailspin, the Canadian funds could find themselves licking their wounds like the large U.S. pension funds did in 2008 and 2009.

"That certainly is a risk they are taking," says Christian Busken, a real-estate analyst for Cincinnati-based consulting firm, Fund Evaluation Group.

While most Canadian pension funds have scant history with direct U.S. real-estate development before the financial crisis, other Canadian property investors have had a mixed track record over the years.

Olympia & York Developments Ltd., a Toronto-based real-estate company controlled by the Reichmann family, became one of the largest property owners and developers in U.S. during the 1980s, only to lose billions of dollars when the commercial real-estate industry collapsed in the early 1990s. Forced to seek bankruptcy protection, the Canadian company eventually had to give up many of its properties, including Manhattan's World Financial Center.

But in the current risk-averse U.S. market, Canadian funds are playing a big role in getting projects going that might otherwise have stalled.

"We definitely canvassed the globe in 2010, and it was apparent that the Canadians were ready to step up and understood the risk and I think the rest of the world hadn't got there yet," says Jay Cross, an executive at Related Cos. who oversees the Hudson Yards project.

The largest Canadian funds rival their U.S. counterparts in size. The **Canada Pension Plan**, one of the country's largest retirement systems, has $170 billion under management, while Caisse de depot has $159 billion.

A Canada fund is building San Francisco apartments, shown in rendering