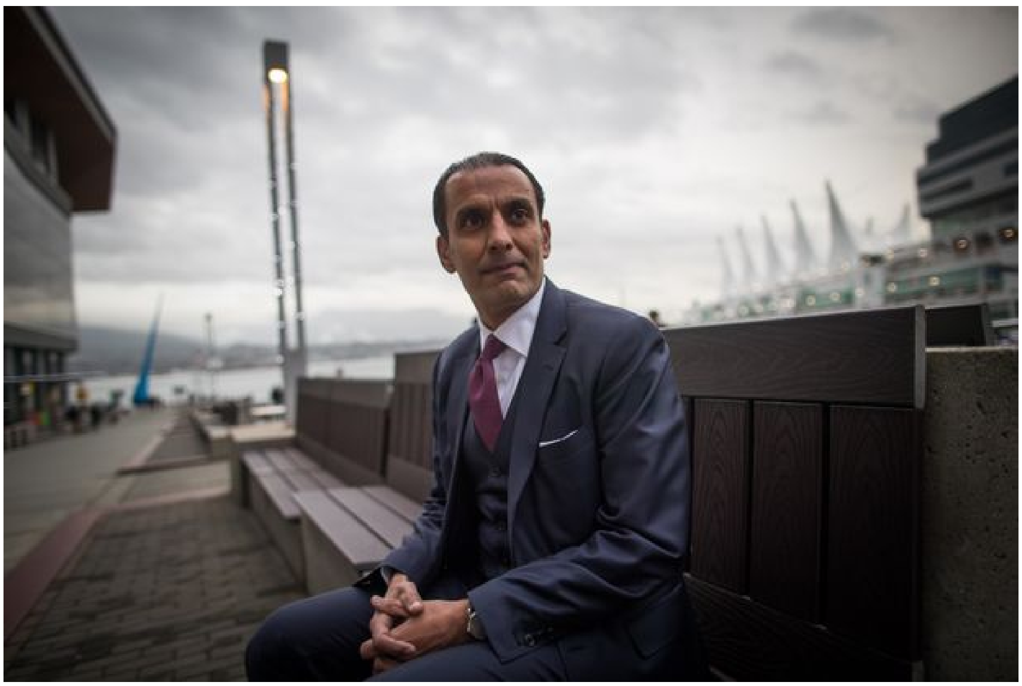
Sandpiper Group set to overhaul five more Canadian real estate entities this year

RACHELLE YOUNGLAI
PUBLISHED 32 MINUTES AGO

FOR SUBSCRIBERS



Samir Manji, founder and chief executive officer of Sandpiper Group, in Vancouver, on Dec. 19, 2018.

DARRYL DYCK/GLOBE AND MAIL

Sandpiper Group, the private-equity firm that overhauled the boards of two real estate investment trusts, is getting ready to shake up other Canadian property companies.

The Vancouver-based Sandpiper has identified five publicly traded real estate entities that it wants to revamp and has started amassing stakes in some of them.

It sets the stage for a combative year in Canada's commercial-property industry, a traditionally sleepy sector that has started to draw interest from activist shareholders. The recent rout in the stock market has made publicly traded realtors more vulnerable at a time when they are worrying about rising interest rates and a potential economic slowdown.

“What appeared to be attractive three to four months ago, has become even more attractive,” Sandpiper chief executive Samir Manji said. “Companies that did not look that attractive from a value perspective have become very interesting to us … 2019 will be a very busy, active year,” he said.

A relative newcomer to the world of activist investing, Mr. Manji founded Sandpiper in 2016 after spending more than two decades in commercial real estate and selling his retirement-living company to the Ontario Teachers' Pension Plan.

The private-equity firm quickly made a name for itself after it launched a proxy fight at industrial property company Granite REIT in May, 2017, and won support from influential proxy advisers Institutional Shareholder Services and Glass Lewis for its slate of directors.

The pressure from Sandpiper, along with another activist investor, forced Granite’s chairman, its vice-chairman and another long-standing board member to resign. Granite unit holders then added fresh blood to the board, including Mr. Manji and two other Sandpiper nominees.

It was a coup for Sandpiper and the private-equity firm’s first public success. Sandpiper then waged a public campaign against Agellan Commercial REIT to shake up the board and stop the trust from paying $15-million to an external manager. Sandpiper got Agellan’s largest unit owner on its side and added two of its directors to the board.

Today, Mr. Manji is raising an additional $200-million to bring his fund up to $600-million so that he can expand its investments next year.

Mr. Manji would not provide names or identify the type of real estate he is pursuing, but he said companies with more than one type of real estate (such as office buildings, apartments and warehouses) or those that are heavily invested in retail or properties in Alberta would come under pressure.

“The only way to bridge the value gap is by taking the tough medicine and making the fundamental changes, whether it is by divesting an entire portfolio that represents one asset class, or possibly even doing something more significant than that,” he said.

“Significant” could mean merging or being acquired, as in the case of Agellan. The industrial and office REIT explored options and eventually agreed to be taken private. The takeover price is $14.25 a unit, compared with around $12 a unit when Sandpiper went public with its initial demands.

For trusts and other companies that mostly own retail real estate, Mr. Manji suggested that going private was the only viable solution in this current market. Investors have shied away from traditional bricks-and-mortar retailers owing to increased competition from Amazon.com Inc. and other online stores.

"If a board and management of a retail pure play REIT is committed to maximizing unit-holder value, the only way they are going to do it is by privatizing, because any other option that includes staying in public market today … is not going to produce full value," he said.

Mr. Manji and his team have examined every Canadian REIT and real estate company and have identified entities they say are deeply undervalued. Hudson's Bay Co. is one of those examples, and Sandpiper holds a tiny stake in the department-store chain.

Mr. Manji also said Crombie REIT was an example of another severely discounted trust, although he stressed that it was only an example. Crombie mostly owns plazas and other retail property across the country. "Crombie has an extraordinary asset base," Mr. Manji said. "And they are getting absolutely no value attributed to them by virtue of the underlying retail sector they are part of."

So far this year, four Canadian REITs were publicly subjected to activist demands, according to Activist Insight, which tracks activist investing worldwide. It was the same number last year. Of those targeted, Sandpiper was involved with three.

"Many REITs or real estate companies have a window of opportunity for the sale of assets and, in some cases, to make a transformational shift," he said.