



A Real Estate Empire

Description

By: Christine Conway

When you think about an “empire”, there is a bunch of imagery that is likely to come to mind. For Canadian investors however, one of these thoughts might be of a publicly traded, east-coast based holding company that is best known for its Sobeys ownership stake. We’re of course referring to **Empire** ([TSX:EMP.A](#)).

Sobeys isn’t all Empire owns in the grocery space. Other banners include IGA, Thrifty’s Food’s and its most recent addition, Safeway. Grocery banners however are not all that that this Empire has been built upon. The company also has a real estate portfolio that tends to slip under the radar.

Real Estate Interest

Empire has ownership in two real estate operations that have very different focuses. The **Crombie REIT** ([TSX:CRR.UN](#)) has built its own empire around commercial properties, with a healthy stream of Sobeys locations being added to its holdings. In contrast, the company’s other real-estate play, **Genstar** is focused on residential real estate. Lets look at them both, beginning with Crombie REIT.

About Crombie REIT

Crombie REIT IPO’d in 2006. With a market capitalization that is now over \$1.4B, it has become the largest landlord in Atlantic Canada and also has locations in Saskatchewan and Alberta. Shopping centres, grocery stores and office space comprise the bulk of the portfolio. This diversification helps support the REIT’s current 7% yield.

Empire has a 42.8% equity interest in Crombie, valued at \$622.7M, and benefits from the attractive cash flows that the REIT throws off. In 2012 Crombie acquired 26 new locations and therefore has exhibited an appealing growth profile.

About Genstar

Since 1950, Genstar has been developing residential communities across Canada and the US. It acquires the land and then works with consultants, other developers, the government, contractors and on some occasions, joint venture partners to create residential communities.

As a recent example- in May Genstar partnered with Falcon Homes in a joint venture to build 62 new family homes in a development called WynnRidge, located in Maple Ridge, BC. The square footage ranges between 1,900 and 3,600 and prices begin at \$559,000.

A Look at Operating Income

Both Crombie and Genstar help contribute to Empire's profitability. The table below helps put the importance of these holdings into some perspective relative the company's grocery operations.

	Food Retailing EBIT	Investment & Other EBIT*
2013	\$515.3M	\$69.5M
2012	\$475.8M	\$58.5M
2011	\$473.4M	\$52.3M

Source: Company reports

*Investment and other made up of Crombie, Genstar, and Empire Theaters which was sold in 2013

The big picture

Though still a relatively small piece of the overall business, operating income generated from the company's real estate holdings has been growing. To help ensure this continues, Empire has reinvested much of what it has received from Crombie over the past year back into the business.

In addition, to help raise the funds required for the Safeway transaction, Empire not only sold its theatre business to **Cineplex**, but also sold 8 of its properties in 2013 to Crombie for \$106 million. It also has made it a strategic priority to offer Sobeys properties to the REIT to free up more cash and further its 'geographic diversification strategy'.

Conclusion

While grocery carries Empire's torch, the company's real estate investments provide an interesting angle to the story. Whether Empire continues to use Crombie as a monetizing agent, or potentially at some point, decides to cut it loose, these positions provide a degree of strategic optionality. Something that is welcomed as Canada's grocery space is one of the most competitive industries in the country.

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CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:EMP.A (Empire Company Limited)

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