



## A Retail Real Estate IPO I'd Love to See But Won't

### Description

*Retail Insider*, a must-read publication for investors interested in retail, recently reported that Mississauga, Ontario's Square One shopping centre went over \$1 billion in annual sales — only the second Canadian mall to do so.

Can you guess the first?

That would be Yorkdale, of course, which crossed the \$1 billion threshold in 2013. It's on its way to hitting \$2 billion, a number it could reach as early as 2018.

Retail in its blandest form might be dead, but don't count out the traditional upscale mall, which is thriving despite the doom and gloom about mall closures, etc.

### Pension funds to the rescue

I recently read an interesting article in the *Toronto Star* that included a discussion with the CEOs of three of Canada's largest mall owners: Cadillac Fairview, Oxford Properties, and Ivanhoe Cambridge.

The Ontario Teachers' Pension Plan (OTPP) owns Cadillac Fairview; Oxford Properties is owned by the Ontario Municipal Employees Retirement System (OMERS), and Ivanhoe Cambridge is owned by Caisse de dépôt et placement du Québec, the pension fund keeping **Bombardier, Inc.** off life support.

All three have trimmed the number of retail assets they own in Canada.

Cadillac Fairview has cut the number of malls it owns by 50% over the past 10 years to 20. In 2003, Oxford Properties spun off its mid-market mall assets into **Borealis Retail REIT**, opting to focus on its top-tier retail assets. Lastly, at Ivanhoe Cambridge, it cut the number of malls in Canada from 48 down to 28.

The idea is to own fewer, higher-quality assets, not just in Canada, but around the world. It's better to own a great mall in Brazil than a crappy one in Timmins (nothing against the birthplace of Frank Mahovlich).

## **Damn pension funds**

The lucky people are the pensioners who belong to OTPP, OMERS, and the Caisse. They're getting institutional, quality investment management for a fraction of what the rest of us pay. And they own a sliver of some of Canada's finest pieces of retail real estate.

What's not to like?

## **The retail real estate IPO I'd love to see**

Yorkdale Mall.

Think about it. Condos are going up all around Canada's most productive mall, which generates \$1,651 in sales per square foot. Oxford, which owns Yorkdale in a 50/50 joint venture with the Alberta Investment Management Corporation (AIMCo), absolutely knows it has a winner on its hands.

How much does Yorkdale make for its pension fund owners each year?

That number is private, but I'm going to guess that the average rent at Yorkdale is \$350 a square foot. With 2.1 million square feet in the mall that works out to about \$750 million in rental income. Even at a 20% operating margin, you're talking about \$150 million in annual profits. Multiply that number by 20, and you've got an asset worth \$3 billion — probably more.

Heck, the Saks in New York is said to be worth more than US\$3.7 billion (yes, I realize prime Manhattan retail is hard to come by), and it's only 650,000 square feet.

## **Bottom line**

I'm not going to hold my breath on Yorkdale going public, but it's an asset that would garner a lot of IPO interest. Other malls might fetch a big price in a public offering, but as long as pension funds own them, it's hard to imagine the situation changing.

It's fun to ponder, nonetheless.

In the meantime, you'll just have to invest in something like **RioCan Real Estate Investment Trust** ([TSX:REI.UN](#)) or south of the border with **Simon Property Group Inc.** ([NYSE:SPG](#)), the world's largest mall owner.

It's not the same thing, mind you, but for now, it's all you've got.

## **CATEGORY**

1. Investing

## **POST TAG**

1. Editor's Choice

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1. NYSE:SPG (Simon Property Group, Inc.)
2. TSX:REI.UN (RioCan Real Estate Investment Trust)

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