



3 Reasons the Canadian REIT Acquisition Makes Sense

Description

They call the stock market the ultimate voting machine, where buyers and sellers make their opinions known every day by the stocks they buy and sell.

On February 15, investors let it be known they weren't happy about **Choice Properties Real Est Invstmnt Trst** ([TSX:CHP.UN](#)) buying **Canadian REIT** (TSX:REF.UN) for \$3.9 billion, a 23% premium to Canadian REIT's February 14th closing price, by sending CHP.UN shares lower.

The combination creates the largest REIT in Canada, a moniker you would think most investors would cherish. Like my Foolish [colleague](#), Joseph Solitro, I think it's an excellent deal for Choice shareholders. Here are three reasons why.

The power of the Weston family behind it

This acquisition doesn't get done without the green light from **Loblaw Companies Ltd.** CEO Galen Weston, whose family controls both companies.

Now, with the combination of the two REITs, the Westons can move their real estate ambitions beyond grocery store properties into various other segments of the industry including industrial, office, and more. As a shareholder of Choice, I would think you would be happy knowing that one of the country's wealthiest families is committing in a big way to grow the company's portfolio.

"They want to become more than just a captive entity with their exposure," **National Bank** financial analyst Matt Kornack told the *Financial Post*. "They want to be more than an anchored real estate entity, so this provides them with a platform to do that."

I think that makes total sense.

A permanent CEO

Choice chief executive John Morrison, who was hired to run the company in 2013 when it was created, announced his retirement three years later in June 2016.

“With this phase of Choice Properties’s plans successfully completed, and with the business in great shape, I felt it was the right time to hand over leadership to the next CEO to guide future growth of the business,” stated Morrison in the June 20, 2016, press release. “I will remain fully committed and engaged in the business until the transition to my successor has been completed.”

Well, that never got completed until now.

Not only is Choice getting a REIT with 25.5 million square feet of retail, industrial, and office space, it’s also getting a permanent CEO in current Canadian REIT chief executive Stephen Johnson.

“This transformational combination creates immediate value for CREIT and provides a tremendous opportunity for Choice Properties to capitalize on Canada’s leading development pipeline and create long-term value,” stated Johnson in the joint press release. “Together, the combined REIT is uniquely positioned to deliver results for unitholders as the owner, manager, and developer of a high-quality portfolio of diversified assets.”

It took a while, but Morrison finally found his successor — a man that’s spent 40 years in the real estate industry.

Greater means more buying opportunities

Choice will be the largest REIT in Canada with a market cap of \$8 billion and an enterprise value twice that amount. It will have 752 properties representing 69 million square feet of gross leasable area across several segments of the REIT world, providing shareholders with greater diversification.

Approximately 63% of its properties are located in cities of more than 500,000, and it likely will move to increase that number given that urban properties are where the real profits lie.

Before the combination, Choice was invested 89% in retail, 9% in industrial, and 2% in office real estate. After, it will have 78% retail, 14% industrial, and 8% office. You can be sure Johnson’s biggest task is finding more industrial and office properties to further its diversification, both regarding the type of real estate it owns, while reducing the reliance on Loblaw.

Like Galen Weston’s purchase of Shoppers Drug Mart, I believe this acquisition will be almost as transformational.

If you own shares of Choice, you can breathe easier. This deal makes sense. If you own Canadian REIT shares, I’d consider [swapping](#) them for Choice shares rather than taking the \$53.75 in cash.

Long term, I think you’ll be delighted with your decision. The only downside: you won’t control the combined company, which isn’t a big deal if you only own a couple hundred shares.

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1. TSX:CHP.UN (Choice Properties Real Estate Investment Trust)

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