

# Canadian investor positions for global push

The manager of Ontario pension assets is evolving its real estate allocation to changing market dynamics. [Razak Musah Baba](#) speaks to Richard Varkey

## Investment Management Corporation of Ontario

Investment manager of Ontario pension and insurance funds

Real estate assets: US\$8.37bn

Ranked: 65th

- Repositioning to a more global portfolio
- Implemented international REIT strategy
- Committed to first direct investment outside North America

Investment Management Corporation of Ontario (IMCO) is adapting its real estate allocation strategy in response to a changing market environment. The institutional investor, managing pension funds for Ontario public servants, is prioritising sectors likely to deliver stable returns and exploring new geographic investment opportunities.

To hedge against a difficult market, IMCO reduced its investments in office and retail sectors anticipating lower returns. It increased its allocation to multi-residential and industrial to deliver more stable, consistent performance, as well as increased exposure to non-domestic investments.

Richard Varkey, managing director and head of the real estate business, says “rising interest rates, regional bank failures and market volatility” have tightened the debt market and reduced investor capital. Economic uncertainties and doubts around return-to-office added to this.

He says: “As a result, while interest-rate risk can never be fully mitigated, we are repositioning our real estate holdings towards a more global portfolio, diversifying across sectors, and have implemented an active real estate investment trust (REIT) strategy to capitalise on the relative value between public and private markets.

“Additionally, with higher borrowing costs, we reduced allocation targets in certain sectors, namely office and retail due to expected underperformance. Conversely, we increased our allocation to multi-residential and industrial properties to achieve more stable, consistent performance, as well as enhancing exposure to non-domestic investments.”

At the end of 2023, real estate accounted for 14% of IMCO’s total assets. At the end of the period, office and retail accounted for 33% and 20%, respectively, of IMCO’s overall real estate portfolio. Residential represented 24% and industrial 13%. The remaining 10% of the portfolio was classed under mixed-use/other assets.

Varkey says IMCO’s disposition strategy remains an important part of executing the firm’s five-year strategic plan to reposition and diversify the portfolio. Part of this is the sale of non-core retail and select office assets, “as we look to reposition the portfolio to reflect long-term trends such as e-commerce, housing constraints and ageing demographics”.

He says: “We did not pause new real estate investments in 2023 and in fact we committed to our first direct real estate investment outside North America in Trinity House, a state-of-the-art life-science laboratory project located in Oxford, England, alongside our partner Breakthrough Properties.”

According to Varkey, the life-sciences sector continues to benefit from demographic tailwinds, and IMCO is focused on exploring more life-sciences opportunities in key research hubs around the world.

“We also initiated an active globally diversified REIT strategy that we expect to outperform as public and private real estate market pricing realign,” he says. “In alignment with IMCO’s five-year strategy to advance climate solutions, we look to advance sustainability solutions within the real estate portfolio, including investing in net-zero building design.”

That said, IMCO has not set a specific amount of capital to invest in real estate in 2024. Varkey says that, given the current limited market transaction volumes and potential for dislocation, IMCO will “look to advance certain strategies that may capitalise in time on improving market conditions and fundamentals”.

He says the portfolio is in transition and in addition to diversifying through sectors such as multi-



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residential and industrial, IMCO will look to diversify geographically as well.

“While our European investment to date has been limited, we continue to consider Western Europe as a region for future investment, with a targeted approach depending on the sector. We are currently invested in France, Germany, Netherlands and the UK.”

Varkey says: “We look to drive consistent stable performance, which is largely done through income returns. The multi-residential

and industrial sectors are best positioned to deliver stable income. Multi-residential leasing characteristics, diversified by numerous tenants favour strong income results, while the industrial sector benefits from the ongoing e-commerce demand, which is integral to tenant operations.

“As well, both sectors perform well in down-market periods and tend to maintain liquidity through cycles. The life-sciences sector also continues to benefit from demographic tailwinds and strong pharma growth and demand, and we are focused on exploring further life-sciences opportunities within key research hubs around the world.”

IMCO has interim targets to reduce its portfolio’s carbon intensity by 50%. It is also investing 20% of the portfolio in climate solutions by 2030, in line with IMCO’s climate action plan.

“Worldwide, real estate is a significant contributor to CO<sub>2</sub> emissions and therefore, sustainability is a key investment consideration,” Varkey says. “We are doing our part to advance IMCO’s climate-action plan through initiatives such as investing in climate technology for real estate and developing carbon-reduction plans for our existing portfolio.

“Over 80% of our Canadian direct real estate is already LEED or BOMA Best certified and IMCO plans to further invest in energy efficiency and carbon reduction in both existing and new properties. IMCO’s strategic partner relationships are aligned with IMCO’s climate goals, and our investment due-diligence process includes a sustainability focus to measure alignment.”