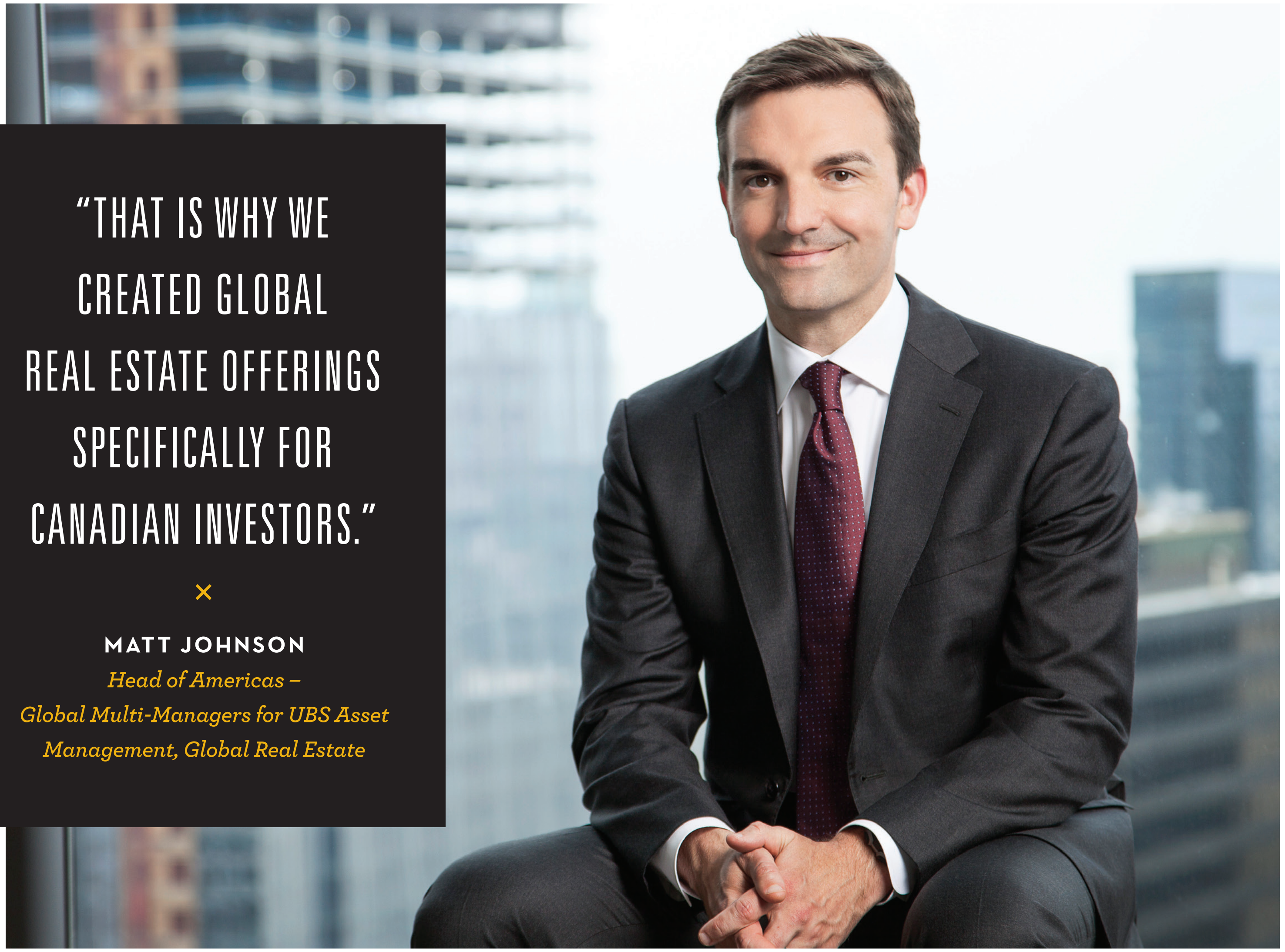

> "THAT IS WHY WE CREATED GLOBAL REAL ESTATE OFFERINGS SPECIFICALLY FOR CANADIAN INVESTORS."

MATT JOHNSON
Head of Americas – Global Multi-Managers for UBS Asset Management, Global Real Estate

WHAT WAS YOUR FIRST JOB OUT OF UNIVERSITY?

At 22, I started working as a temp for an international architecture and engineering firm. Six months later, they sent me to Manila to establish an accounting and treasury function in the Philippines. As they expanded into the Middle East, I did the same thing in Abu Dhabi. That was two years of my life – and I learned a lot!

WHAT IS THE BEST PART OF LIVING IN CHICAGO?

I like that Chicago has sporting events, great music, restaurants and Lake Michigan, plus it's still relatively affordable.

DO YOU PREFER TO SURF ONLINE OR ON THE WAVES?

Funny you should ask. Surfing actually is my all-time favourite hobby.

WHERE WOULD YOU LIKE TO TRAVEL THAT YOU HAVE NEVER BEEN?

I want to go to Africa – to Kenya, Tanzania and South Africa.

WHAT DO YOU FIND MOST COMPELLING ABOUT INVESTING IN REAL ESTATE?

Real estate is more tangible than other asset classes in that you can have a higher degree of conviction around your investment decisions.

First, you have a building with leases where you will know the rents and when the leases end. Second, by examining rents at similar buildings in the same area, you can get a sense of whether, when you re-lease a particular space, the rent will be the same, higher or lower, and what that will do to the income return.

Finally, unlike equities, with real estate you can't just print paper to create new supply. You have to get zoning and permits and physically build the building. So this gives you more conviction around how much new supply will be coming onto the market and allows you to analyze that against existing demand.

THE PERFORMERS

CANADA'S INFLUENTIAL THOUGHT LEADERS

MATT JOHNSON
Head of Americas – Global Multi-Managers for UBS Asset Management, Global Real Estate

INVESTING GLOBALLY, THINKING LOCALLY. *Recently,* Benefits Canada *sat down with Matt Johnson to discuss Canadian real estate and his views of the global real estate market. As one of the largest global real estate investment managers worldwide, UBS is a one-stop shop, offering legal, tax and operational capabilities, with tailored services to suit any type of investor.*

Why is it difficult to get efficient exposure to real estate within Canada?

Excluding owner-occupied space, Canada makes up about five percent of the investable universe of core/stabilized real estate and about two percent of the total real estate market, including emerging markets and value-add/opportunistic real estate. So there isn't a lot of supply, and – through well-funded, large public pension plans and the sizeable real estate investment trust (REIT) market – there is a lot of demand. That makes it hard for smaller to medium-sized Canadian institutional investors to access properties within their home market. That is why we created global real estate offerings specifically for Canadian investors.

How important is regional diversification when investing in real estate?

Very important. While sectors within a country often move in tandem, returns can vary a lot regionally. Also, a country might be missing exposure to a specific sector. Canada has office, industrial and retail stock, but does not have much apartment stock, yet that is a big emphasis of institutional investing in the United States.

Where are you finding the best global real estate opportunities today?

We are bullish on Continental Europe and the industrial markets in Australia and Japan. Moving up the risk spectrum, there are interesting opportunities in non-performing loans in Europe and senior bridge lending in the United States. Brazil is an interesting market too – though it's not for the faint of heart.

What qualities do you want to see in a potential investment?

For core real estate, you want it to be well located with good long-term leases generating a sustainable income return. Historically, about two-thirds of core real estate returns have come from the income return and about one-third have come from capital appreciation. Capital appreciation is influenced by what is happening with other asset classes, interest rates and investment in-flows so it is harder to forecast - but you can have conviction around income returns and whether they are positioned to grow over time.

For value-add real estate, the biggest thing for me is coming in at an attractive basis. Then you can charge significantly lower rents than competing properties, but still produce an attractive internal rate of return (IRR) in a relatively supply-constrained market. Once you get the building stabilized, you can sell the rental growth story to the next buyer.

What do you tell institutional investors looking to fill their real estate allocation?

Big pension plans normally have their own real estate staff and the ability to write big cheques to acquire individual properties. For smaller to medium-sized Canadian pension plans that want international exposure, a fund-of-funds vehicle gets capital deployed efficiently and manages the complexity of Canadian regulations, taxes and structures.

What big trends will shape the future of real estate investing?

Right now we are watching regulatory changes, such as the Alternative Investment Fund Managers Directive in Europe and the amended Foreign Investment in Real Property Tax Act in the U.S. that eliminated tax on realized capital gains for qualified foreign pension funds. We are seeing more interest in environmentally sustainable buildings from investors and corporate tenants. As more people shop online, big box stores are shrinking and moving inventory to decentralized industrial facilities to support faster delivery. And, on the office side, many companies are allocating less space to each employee and more space to common areas.

For more information, email us at assetmanagement-americas@ubs.com