

Congebec sells facilities to real estate investment trust

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In December 2018, Skyline Commercial REIT paid \$190 million for nine Congebec Logistics temperature-controlled facilities in Quebec (Montreal, Ste. Julie, Boucherville, three in Quebec City), Winnipeg, Saskatoon and Calgary. Together, the properties total 1.3 million square feet.

As part of this record-setting deal, Congebec, which provides temperature-controlled storage and distribution services, has leased back all but one Quebec City property, which will continue to be leased to tenant Metro Richelieu, for the next 20 years with the option to renew for 20 to 25 years depending on the location.

“As we see it, we sold our buildings to lease them back – Skyline Commercial essentially bought the leases and Congebec got out of the real estate and landlord business to free up the capital we need to fulfill our ambitions and grow our company, while keeping the focus on handling fresh and frozen products for our food, retail and consumer packaged goods customers,” said Nick Pedneault, president and CEO of Quebec City-based Congebec, in an interview.

“We always tell our customers to focus on their core businesses and let us handle the rest – we took our own advice.”

Michael Mackenzie, president of Skyline Commercial, said, “We’re interested in owning buildings that meet our risk and return objectives and this particular company and sector meet those requirements.”

Skyline Commercial is following in the footsteps of investors such as Brookfield, Desjardins, KingSett Capital and Ivanhoé Cambridge, all of which have recognized the low-risk, stable returns offered by the third-party logistics and cold-storage sectors.

Likewise, Congebec’s Pedneault noted: “Leasebacks have been done forever and in fact, some of my competitors did this 10 years ago.”

As much as Congebec preferred one landlord and one financial partner, Skyline Commercial recognized the leaseback ensures secure, risk-adjusted returns for a 20-plus year time horizon, said Dane Gilbert, executive vice-president at commercial realtor Colliers

International in Toronto. The company counts the Congebec/Skyline commercial transaction as the largest industrial investment sale in Canada over the past five years and the largest industrial investment sale in the history of Colliers International.

Since its 2012 launch, Skyline Commercial, which now holds about \$800 million in assets, has had a portfolio of smaller, multi-unit/tenant properties in Toronto and Ottawa with a broad tenant base to mitigate the risk to investors. Today, the Skyline Commercial REIT is weighted more heavily toward newer, larger single-tenant properties with longer-term leases and in keeping with this strategy, the Congebec asset was a good fit for the fund.

As importantly, in Canada and the U.S., frozen food is generally considered a recession-resistant sector and consumer demand for frozen food will continue to expand. The Mordor Intelligence report “North America Frozen Food Market, 2018 -2023” notes that consumer demand for convenient, ready-to-eat products will grow and that Canada will lead the frozen food market with a growth rate of 4.4 per cent. Across North America, frozen vegetables and ready meals, particularly frozen pizza and handheld breakfast, will be the fastest growing segments.

The Skyline Commercial team also learned that because temperature-controlled facilities are so incredibly expensive to build, the very limited supply is estimated at just 0.6 per cent of the total Canadian industrial inventory. This ensures tenants tend to stay put, while those who move on are typically replaced well before their leases expire.

More specifically, Congebec was particularly appealing as the second largest cold-storage provider in Canada and the 10th largest in North America. An industry leader, Congebec also has 45 years of operating experience, a good track record and balance sheet, a strong ownership group, and an excellent management team with a great growth strategy. In addition, the cost of the acquisition was less than the replacement cost, it moves the average term of Skyline Commercial’s leases upward and provides returns for 20+ years.

“This partnership has to be a good fit for both Skyline Commercial and Congebec, because it will last longer than most marriages, with a commitment of at least 20, and up to 45, years,” Mackenzie said.

Skyline Commercial is in the business of acquiring buildings and tenancies that deliver stable, long-term returns to investors. As Mackenzie himself explained, Skyline Commercial isn’t actively pursuing or in the business of third-party logistics or cold-storage any more than it is in agricultural equipment after purchasing Cervus Equipment, an equipment dealer representing John Deere and others.

“We want to work with companies, that, like Congebec, are looking for ways to unearth the opportunities in their balances sheets and can see that they can make a better return by investing in their respective operations than in bricks and mortar,” Mackenzie said.