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Real Estate's Hot but Canadian M&A Activity Down Overall Last Year

By Christine Dobby, Financial Post – FP Street

In a year marked by low interest rates and volatility on the capital markets, real estate deals dominated the Canadian mergers and acquisitions story in 2011.

With 233 transactions, the sector was the most active for the year as a whole, according to a Financial Post Crosbie Mergers & Acquisitions in Canada report published Wednesday.

Real estate deals led the way in activity in the last three quarters of the year, the report said, although at $18.6-billion for the year, the total value was outstripped by fewer but more valuable deals in other sectors.

Ian Macdonell, managing director of Crosbie & Company, said he was a bit surprised by the surge in real estate, which is not typically one of the strong sectors, but said the activity reflected broader trends in the economy.

"Given investor hunger for yield, there is strong demand for real estate assets from a variety of buyers," he said, noting the low interest-rate environment makes other investments less attractive.

"The trend we've seen is pension funds and insurance companies wanting to invest directly in assets with stable cash flows," he said.

Real estate investment trusts (REITs) generally pay high dividends to unitholders, he said, making them attractive investments for seniors and others frustrated by low yields on fixed income. That in turn has given REITs the ability to raise capital and fund acquisitions.

Mr. Macdonell sees the trend continuing next year.

"As long as interest rates stay low I think there will be demand for that sector," he said.

As for the broader M&A landscape, the fact that there weren't a lot of mega deals worth more than $1-billion during the year reflects the business community's concern about the economic picture.

According to Mr. Macdonell, the outlook for 2012 looks more optimistic, with signs of the U.S. economy recovering, the Greek debt swap deal completed and testy financial markets finally settling down.

The underwhelming year for M&A activity ended roughly as expected, with 2011 volume and total value of transactions down from the year before.

With 1,058 transactions worth $160-billion, volume was down 7.7% and total value decreased 3.7% compared with 2010, according to the report.

The fourth quarter exhibited trends seen throughout the year, with steady activity in mid-market deals worth less than $250-million, relatively few mega deals and a high proportion of cross-border activity.

The biggest deal announced in the fourth quarter was the $3.5-billion acquisition of Quadra FNX Mining Ltd. by Poland-based KGHM Polska Miedz S.A.

The highly publicized sale of a 79.5% interest in Maple Leaf Sports & Entertainment Ltd. to rivals BCE Inc. and Rogers Communications Inc. for $1.32-billion was the fourth-largest deal of the quarter.