

## Manulife

# Finding opportunity in Canada

Based in Toronto with U.S. headquarters in Boston, **Manulife** is actively investing in real estate in 22 cities — in Canada, the United States and throughout Asia. Recently, **Jonathan Schein**, managing director of global business development for Institutional Real Estate, Inc., spoke with **Ted Willcocks**, global head of asset management, real estate for Manulife. The following is an excerpt of that conversation.

*Can you give me a short overview of Manulife?*

Manulife Financial Corporation is a leading international financial services group. We operate primarily as John Hancock in the United States and Manulife elsewhere. We provide financial advice and insurance, as well as wealth and asset management solutions for individuals, groups and institutions. At the end of 2016, we had approximately 35,000 employees, 70,000 agents and thousands of distribution partners, serving more than 22 million customers. As of Sept. 30, 2017, we had over C\$1 trillion (US\$806 billion) in assets under management and administration. Our principal operations are in Asia, Canada and the United States, where we have served customers for more than 100 years. With our global headquarters in Toronto, Canada, we trade as “MFC” on the Toronto, New York and the Philippine stock exchanges and under “945” in Hong Kong.

*Tell me about the firm’s involvement in real estate.*

Manulife has been investing in and managing direct core and core-plus real estate for more than 80 years. As of Sept. 30, 2017, we manage just over C\$80 billion of private market assets, in areas such as real estate, timber, farmland, commercial debt, private equity, and oil and gas. In terms of debt and equity, we manage more than C\$50 billion in real estate — \$C21 billion of which is commercial real estate.

This is where I am principally involved. Our real estate mirrors our overall assets as we’re invested in Canada (about 40 percent), the United States (about 50 percent) and Asia (the remaining 10 percent). We are in eight countries and 22 cities around the world, and we are expanding into other jurisdictions in the Asia Pacific region. In terms of real estate in the United States, we have regional offices in New York; Boston; Washington, D.C.; Atlanta; Chicago and Los Angeles. In those offices, through our John Hancock brand, we conduct vertically integrated management of our real estate assets. Our vertically integrated platform means that we leverage a team of acquisition experts, portfolio managers, leasing managers and property managers — so when we manage a building, we are able to fully lease it, as well.



**Ted Willcocks, global head of asset management, real estate**, leads the development and implementation of Manulife’s real estate strategy, overseeing portfolio management, asset management and development for the global portfolio, and currently oversees Manulife’s Canadian Real Estate Funds platform.

As a key member of the Manulife/John Hancock real estate leadership team, Ted drives investment performance for the overall portfolio and supports the strategy to expand the external private asset management business. He has an extensive background in real estate asset management and investments and brings over 20 years of industry experience to his current role.

*Core and core-plus have come to mean different things to different people. How does it look in terms of Manulife’s real estate portfolio?*

Core represents lower risk and return in stable, occupied properties with strong credit within our portfolio. Core-plus are stable properties with potential for upside valuation gains through some form of enhancement, providing low-to-moderate risk and return. The enhancement opportunities in our portfolio can be found by improving occupancy, bringing below-market rents to market, and repositioning through moderate capital expenditure to upgrade the building. In contrast to our core strategy, which is focused on primary markets, we seek core-plus opportunities in both primary and secondary markets.

*What about the real estate operations in Asia? Are those managed the same way as in Canada and the United States?*

In terms of real estate, we have an investment portfolio in Japan that we have been overseeing since 2004. We just finished developing a building in Hong Kong, Manulife Real Estate’s largest development to date, in the new CBD area. We recently began growing an open-end internal fund due to the demand from insurance products in Asia. Our first acquisition for this fund was a building in Singapore — 8 Cross Street — in April 2017, which marked Manulife Real Estate’s second largest acquisition to date, and we have further pending acquisitions in other markets.

*And how would you describe the current state of the Canadian real estate investment market?*

Well, compared with the United States, it is a small market. The office sector is really dominated by four or five markets, and some people would narrow that to Toronto and Vancouver — although certainly Montreal has revived and is gaining strength quickly, and Calgary, which was a robust city before the oil downturn, is in the early stages of recovery. But significantly, over the last 20 years, the Canadian market has gone from largely private ownership into the arena of pension funds controlling virtually all of the major markets across Canada. It is still a very tight market, with core office cap rates sub-5 and even sub-4 in some cases, such as Vancouver. I think people are surprised by the investment metrics that dominate the Canadian marketplace — the size of these markets and how closely the Canadian investment market mirrors many of the investment principles of the United States. These include a solid economy, as well as a very transparent market with a strong rule of law.

*You mentioned you are focused on some of the gateway U.S. markets. Are you seeing capital flowing from Canada to the United States? What about from the United States to Canada?*

Canadians are investing tremendously in the United States. The Canadian market isn't deep enough for some of our large investors, so they have been large buyers in places like New York and Boston, as well as Asia and Europe. In terms of interest from U.S. investors in Canada, we have seen a lot of U.S. interest over the years, but it has not manifested into any giant wave of investment activity here. Some of the more nimble players come up to Canada to build and develop specialized industrial, multifamily or hotel properties, but in the office sector, for example, we have not seen a tremendous interest from the United States. We don't see the major developers operating in these markets.

*What about Canada's overall economy? In the United States, some people think the recovery is due for a correction and that it is about time for the real estate cycle to turn. Is that the feeling in Canada?*

No, I wouldn't necessarily depict our economy that way. We did not have the correction that the United States had during the Great Financial Crisis from 2008 through 2010. In fact, Canada has one of the strongest balance sheets of all the G7 countries, if you look at debt as a percentage of GDP. Our unemployment is very low, and we have some very healthy sectors here — especially in Ontario and Quebec. Admittedly, our energy sector has been muted, although I believe that we are in recovery.

*Let's shift gears to governance. What kind of governance can investors count on with Manulife?*

That is a very important question. We instill a tremendous amount of transparency and governance around our funds. We are not running a multiple series of funds, where investors have concerns as to which fund gets the prime assets. For example, in Canada we really only have three accounts that are actively buying — so our allocation policy, which is ultimately a rotation, doesn't present difficulty for our clients, especially since all three mandates involve entirely different strategies. But we certainly spend a great amount of time with investors and make them aware of our protocol and process.

*When it gets down to the bottom line, what makes Manulife different from some of the other big insurance companies that also run real estate companies?*

This company is very entrepreneurial. We like to say we are tremendously nimble. We run a vertically integrated operation. Within the financial services company, we have an active fund manager, developer, asset manager and portfolio manager of world-class real estate. Manulife has had terrific growth in terms of real estate, building upon more than 80 years of real estate investment for the company. There is a massive commitment by senior management to our real estate business in all its complexity. Whether it be in Chicago, Toronto, Tokyo or Washington, D.C., people know that when they sign a contract with Manulife or John Hancock, we will honor our commitment. We will close the deal. That credibility wins us numerous transactions and gives us access to some of the best assets — all of which benefits our investors.

## CORPORATE OVERVIEW

Manulife Real Estate proudly invests, owns, develops and asset manages commercial real estate across the globe. We leverage our fully integrated in-house capabilities to best serve our customers and investors, while generating value for our stakeholders.

## CORPORATE CONTACT

**Jennifer Lundmark**  
**Senior Managing Director & Head of Real Estate Fundraising,**  
**Manulife Asset Management Private Markets**  
 +1 617-572-5104  
 J.Lundmark@jhancock.com  
 www.manulife.com

This article presents the author's present opinions reflecting current market conditions. It has been written for informational and educational purposes only and should not be considered as investment advice or as a recommendation of any particular security, strategy or investment product.