

Gary Lamphier: Industrial real estate developer Imperial Equities rides out latest oil price storm

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Imperial Equities CEO Sine Chadi has seen the best and the worst of Alberta's oil-fired economy. Now, after enduring the province's latest two-year-long economic downturn, he sees better days ahead.

When I last interviewed Imperial Equities CEO Sine Chadi in early 2013, the oilpatch was booming and so was the local industrial real estate developer he founded in 1998.

Imperial's earnings, revenues and rental income were levitating at record highs, assets topped the \$100-million mark for the first time, and Imperial's drug distribution arm, founded from scratch just five years earlier, boasted annual sales of more than \$50 million.

"Alberta is just an absolutely wonderful place to do business," gushed Chadi, a former provincial politician turned entrepreneur. "We're 99-per-cent occupied in all of our buildings and we've got hundreds of thousands of square feet of industrial properties. The market is incredible."

And so it was, back in the good ol' days.

Then, in late 2014, the party ended. Oil prices crashed, Alberta's rip-roaring boom turned to bust, and the once-torrid industrial real estate market hit a giant pothole. Vacancy rates jumped as companies cut staff, projects were shelved and new buildings couldn't attract tenants.

The inventory of available industrial space in the city reached nearly 650,000 square feet by the end of the third quarter of this year, according to commercial broker CBRE. That translates to a vacancy rate of 8.8 per cent, well over double the level of the boom years.

Meanwhile, Imperial's drug distribution arm ran into some brutal competition, as U.S. giants McKesson Corp and AmerisourceBergen battled for a bigger slice of the Canadian pie. "We were almost like a little rowboat in an ocean, straddled by two supertankers," says Chadi.

With few good options, he decided to sell his drug distribution arm to a Vancouver company a year ago for about \$10 million. "The competition was so fierce and the margins were so thin that it just wasn't viable," Chadi admits. "Besides, it was distant from and unlike our core business, so we decided to return solely to being a pure play industrial real estate company."

Surprisingly, that side of Imperial's business has weathered Alberta's recent economic storm remarkably well. In fact, Chadi has been busy buying and selling properties and growing Imperial's asset base, partly by reallocating proceeds from the sale of the drug unit.

"In just the last 30 months Imperial has grown its asset base by \$60 million, which isn't bad for a little Edmonton-based small cap public company," he says with a chuckle.

"We purchased and developed a property for Strongco in Fort McMurray, for about \$20 million. We developed a 45,000-square-foot property in Red Deer for Essential Energy, for about \$15 million. And in September, we bought the Weir Seabord Canada building in Edmonton for more than \$12 million."

Then, just last week, Chadi announced a \$9.8-million deal to acquire the 149 Street Business Centre, on the city's near west side. The transaction is slated to close in February. The latest additions will boost Imperial's leasable industrial assets to more than 700,000 square feet, all of them fully occupied.

It's an enviable position for a landlord to be in, especially in the wake of the worst economic downturn in Alberta since the 1980s.

"My tenants are national or international in scope, and that's what saved my hide," he says. "We've deliberately concentrated on those large national or multinational tenants. They're not the ones who say: 'Can you put a hold on my cheque until next Saturday?'"

Now that the Trudeau government has approved Kinder Morgan's \$6.8-billion Trans Mountain Pipeline expansion project to the West Coast, and Enbridge's \$7.5-billion Line 3 replacement project to Wisconsin, Chadi feels Imperial is well positioned to capitalize on the next cyclical upswing. The company has assembled several land parcels in the Edmonton area, ready to be developed.

Last week's agreement by the Organization of Petroleum Exporting Countries to cut output by about 1.2 million barrels per day should also help the oilpatch get back on its feet, he figures.

“People in our province, particularly in hard hit areas such as Fort McMurray, Red Deer, Calgary and Grande Prairie, have long been waiting for some good news of any kind, particularly on pipelines. So the federal government’s approval of Trans Mountain has given tremendous confidence to that sector,” he says.

“For people like me and other landlords who cater to corporations involved in the oil industry, we felt all along that this approval would happen. But when it finally comes you say, ‘Wow this is fantastic.’ Still, it’s going to take a while to get there. It’s not going to be built overnight. But it validates the optimism we felt before. Having the price of oil go up would just be icing on the cake.”

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