Private real estate investor Hazelview sees surge in requests to cash out of $1.2-billion Four Quadrant fund

TIM KILADZE >

PUBLISHED JUNE 13, 2023

UPDATED JUNE 14, 2023

Toronto's Financial District on Dec 2, 2022.

FRED LUM/THE GLOBE AND MAIL

Hazelview Investments, a private money manager that specializes in commercial real estate, is experiencing a surge of investor requests to cash out of its Four Quadrant fund – a common problem for private investment managers as interest rates rise.

In a memo to clients obtained by The Globe and Mail, Toronto-based Hazelview said investors have requested $188-million in redemptions this quarter, amounting to 16 per cent of the fund's $1.2-billion in assets under management. Hazelview currently limits redemptions to roughly 5 per cent of the fund each quarter, which means a number of investors will get only some of their money out, and will have to try again for the rest next quarter.

The Four Quadrant fund, which Hazelview has managed for 12 years, offers investors exposure to a mix of private and public real estate investments. It owns commercial properties, lends to real estate companies, buys public debt and corporate bonds, and invests in shares of publicly traded companies. Despite this mix – which makes up the "four quadrants" of investments – the fund is largely illiquid. Roughly three-quarters of the portfolio is made up of assets that are hard to sell in a flash when investors want out.

Although Hazelview is not lowering its redemption cap, and is instead informing investors that some of them will not get all of their money out, a number of private investment managers have recently elected to change their redemption limits.

Earlier this month, Ninepoint Partners and Third Eye Capital limited redemptions on their jointly run private debt fund to 3 per cent of the previous quarter's net asset value, and late last year Romspen, one of Canada's biggest private mortgage lenders, with $3.2-billion in assets under management, froze investor redemptions altogether, citing some trouble with loan repayments.

It is a complicated time for many private debt and private real estate managers. Unlike private equity funds, which lock investors in for at least five years, a number of private investment managers spent the past decade winning over retail investors with promises that they could cash out quarterly. These managers also offered strong returns, often paying 8-per-cent to 10-per-cent annual yields in an era of ultralow interest rates.

Lately, though, the investment calculus has been changing, and so have the fundamentals of running some of these funds.

For one thing, the benchmark interest rate in Canada has jumped to 4.75 per cent, giving investors the option of putting their money in ultrasafe guaranteed investment certificates, which now pay around 5 per cent annually. Although private debt and real estate funds can still generate higher returns, the returns come from lending to or investing in riskier companies.

As for the fundamentals, some real estate funds use variable-rate mortgages to finance their operations, and rising interest rates have sent their borrowing costs soaring. Northview Fund, for instance, invests in rental apartment buildings in the Northwest Territories and Alberta, among other places. It was contemplating cutting its distribution because so much of its monthly cash flow was being eaten up by higher interest costs. On Monday, the fund announced a recapitalization by its private backers, which include Starlight Investments and KingSett.

Under Hazelview's redemption protocol, withdrawals are limited to 5 per cent of each class of units. (Investment funds often offer multiple classes of units, which differ depending on the fees they charge to investors, or where the units can be purchased – such as through an adviser or through a discount brokerage.)

In its memo to investors, Hazelview reminded clients that redemptions are limited because private investments are tough to sell quickly, and that doing so at a deep discount, simply to generate cash, could hurt investors who remain in the fund.

"Decisions to divest for liquidity purposes are integrated with decisions to maximize shareholder value, ensuring we act in a manner that balances our duties to both exiting unitholders as well as remaining unitholders," the firm wrote.

Four Quadrant Class F and Class J units have experienced the highest levels of redemption requests this quarter. Class F units are sold by fee-based advisers, while Class J units pay lower fees and are limited to unitholders who invest a minimum of $5-million each.

Hazelview expects unitholders who want to cash out of these two classes will have 20 per cent to 30 per cent of their redemption requests satisfied, but added that it will not know the exact amounts until early July.

Hazelview also stressed that roughly a quarter of the fund's portfolio is in liquid securities, such as publicly traded stocks, which are easier to convert into cash if necessary.

Top financials at a glance

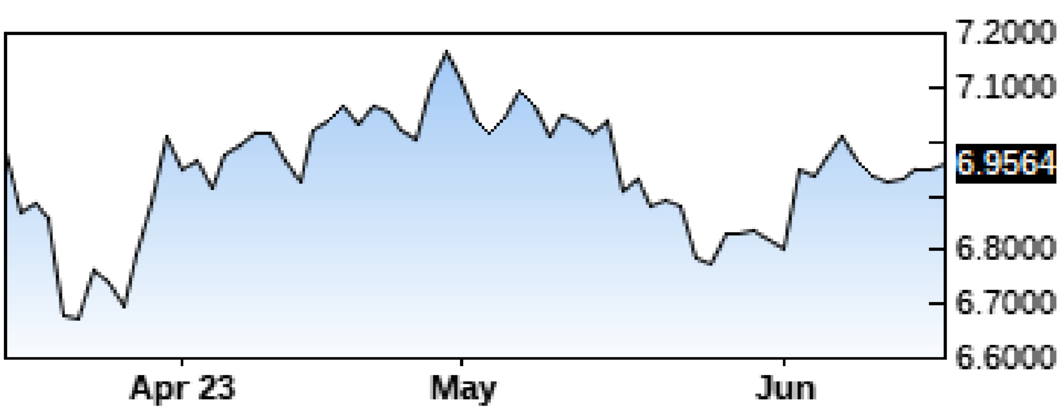
Study and track financial data on any traded entity: click to open the full quote page.

Data as of 16/06/23 0:00am EDT

Hazelview Global Real Estate Fund Series A ↑

TBR201.CF +0.09%

PE	Yield	Analysts
N/A	N/A	Buy



Hazelview

TBR203.CF

PE

N/A