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Income trust trolling for $5M
Lanesborough looking to buy new properties

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By Martin Cash

LANESBOROUGH Real Estate Income Trust is looking to raise up to $5 million in a new private placement offering as part of the company's objective to grow to a $100-million portfolio within the next two to three years.

Arni Thorsteinson, CEO of Lanesborough, said the private placement offering at $4 per unit will effectively allow the company to double the size of its portfolio.

Lanesborough currently owns about $18 million worth of properties, including the Kenaston Village Mall and the adjoining three-storey office building, a bathroom fixture warehouse north of Calgary and a Purolator building in Burlington. The deal to acquire the Purolator building has yet to close.

"If we are able to raise $5 million, it will allow us to increase the size of our portfolio by $20 million," Thorsteinson said, because Lanesborough would typically secure mortgage financing when acquiring new properties.

'Good return'

"We borrow 75 per cent of the acquisition costs of the properties, and since long-term interest rates are at attractive levels, it really benefits us, whereas others got locked into long-term rates (in previous years) much higher than they are now. That helps us produce a good return." Lanesborough currently distributes 50 cents per unit, producing a yield of about 12.5 per cent. Thorsteinson said that next year, distributions are expected to increase to 59 cents per unit, generating a 14.75 per cent yield.

Brent Bottomley, a vice-president of corporate finance at Wellington West Capital in Winnipeg, the company that is marketing the offering, said it's expected to close next month. Lanesborough has identified some properties it would buy with the proceeds, but Bottomley said they could not be disclosed because offers have not yet been made.

The low-interest environment is one of the reasons REITs are a popular investment vehicle.

Stephen Pincus, a lawyer with Goodmans in Toronto and a co-author of the *Canadian REIT Handbook*, said a number of things are driving the market right now.

"The fundamental drive is low interest rates, and when the Bank of Canada lowered rates last week, it reinforces the positive demand for high-yield investment vehicles like REITs," Pincus said in a telephone interview yesterday from Toronto. "Even more fundamental is the demographics of a large baby-boom population looking for income-generating investments."

Stable income He said the post-tech bubble and the need for stable income is what is drawing a lot of investors to REITs.

Although REITs that include hotels, which have been hard hit because of all the reasons the travel industry has been derailed, are not doing particularly well, non-hotel REITs are doing great.

In a report earlier this month from CIBC World Markets, it noted that REITS matched the S&P/TSX index in the first half of 2003 with a return of seven per cent, driven by high distribution yields, lower long-term interest rates and relatively stable fundamentals in most real estate subsectors. REITs, excluding hotels, have outperformed the stock market with a return of more than 10 per cent, reflecting their stable fundamentals.

The CIBC report adds that, not counting hotel REITS, average yields are about 9.4 per cent and distributions are supported by distributable income that is projected to grow by five per cent, on average, in 2003 and 2004.