Activist-Targeted InterRent Accepts Take Private Bid

Canadian flag in front of view of False Creek and the Burrard street bridge in Vancouver, British Columbia, Canada. | Hannamariah/Shutterstock

A sale could help the Canadian apartment REIT avert a potential public battle with activist Anson Funds, an outcome that it appeared eager to avoid.

By Jean Haggerty

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InterRent REIT, which activist Anson Funds Management LP started agitating at in March, on Tuesday, May 27, agreed to be taken private for $1.45 billion by a group led by the REIT's executive chairman Mike McGahan and the Singapore sovereign wealth fund, GIC Pte. Ltd.

A sale may help the REIT avert a potential public battle, which it appeared eager to avoid, given the decision to delay its annual meeting disclosures and to postpone its annual meeting.

Under the agreement between InterRent and Carriage Hill Properties — a private company owned by McGahan — and GIC, the REIT's unitholders will receive C$13.55 ($9.81) per unit in cash for its portfolio of apartment properties in Ontario, Quebec and British Columbia.

The $9.80 takeout price represents a 29% premium to InterRent's 90-day volume weighted average price on the Toronto Stock Exchange, as of May 26, and a 40% premium to the REIT's 52-week low of $7.

While the total equity value of the transaction is about $1.45 billion on a fully diluted basis, the total transaction value is approximately $2.89 billion including the assumption of net debt, InterRent said in a statement announcing the offer.

InterRent's board, acting on the unanimous recommendation of the special committee of independent trustees, unanimously approved the transaction and recommended that unitholders support it. The deal requires the approval of InterRent shareholders, who will vote at a special meeting expected in the third quarter to consider the transaction.

The TSX approved the deferral of the REIT's annual meeting, which had been expected to take place in late April based on last year's meeting date. The meeting will now be held concurrently with the special meeting to consider the transaction.

In a statement, a Toronto-based Anson Funds' spokesperson said that it's "pleased to see the InterRent board take a concrete step towards closing its valuation discount." In March, the activist fund reportedly had accumulated a large position in InterRent and was pushing for strategic changes.

According to InterRent, Tuesday's agreement includes a 40-day go-shop period that extends through July 6 that gives any other potential bidder the opportunity to make a superior offer for the REIT. Also, during or after this period, Carriage Hill Properties and GIC will have the right to match any superior proposals received, the REIT said.

"We will see how the go-shop process unfolds as we believe there is potential for more value to be realized," Anson Funds' spokesperson's statement said. Anson, a 9% owner, added that it reserves final judgment until it has reviewed merger documents. Anson's investment in InterRent has been co-led by Michael Missaghie, head of real estate strategy at affiliate Arch Anson, and Sagar Gupta, head of activism.

InterRent, in its announcement Tuesday, said that it doesn't intend to disclose developments on the go-shop process unless, or until, its board makes a determination that requires further disclosure.

In a May 27 research note, TD Securities Inc. Canada analysts said they believe it's possible that higher bids could emerge.

"While the purchase price is slightly above the midpoint of the formal valuation range undertaken as part of the transaction (C$12.75 to C$14.00), we view [InterRent's] portfolio and operating platform as attractive assets to any investors looking to get immediate scale in Canada," their note said. Historical M&A transactions in the Canadian apartment space have largely come in at slight premiums to net asst value estimates, they pointed out.

BMO Capital Markets Corp. is providing financial advice to InterRent, and it provided the REIT's board and special committee with a fairness opinion on the transaction. National Bank Financial provided an independent fairness opinion and the formal valuation to the special committee.

Norton Rose Fulbright Canada LLP is acting as legal counsel to the special committee and Gowling WLG (Canada) LLP is acting as legal counsel to InterRent. On the purchaser's side, Scotiabank is acting as financial adviser. Goodmans LLP and Stikeman Elliott LLP are acting as legal counsel to CLV Group and GIC, respectively. Carriage Hill Properties Acquisition Corp. is a newly formed entity owned by CLV Group and GIC.

Additionally, LaBarge Weinstein LLP is counsel to CLV Group in connection with joint venture arrangements, and Skadden, Arps, Slate, Meagher & Flom LLP is providing counsel to GIC in on the joint venture arrangements. The Bank of Nova Scotia is acting as sole underwriter on credit facilities in support of the acquisition.

InterRent REIT's stock closed at $9.93 per share on Tuesday, up 16% from its prior close and up 39.6% year to date.

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COMPANIES

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BMO Capital Markets Corp.
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CLV Group Inc.
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Goodmans LLP
Gowling WLG International Ltd.
InterRent REIT
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