

## C A S E S T U D Y

### Building a Legacy: Lessons from Cadillac Fairview's First Leader

Canadian Business History

This case was prepared by Madison Isaacman, with supervision and guidance from Professor Joe Martin, as the basis for class discussion rather than to illustrate either effective or ineffective handling of a managerial situation.

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# Building a Legacy: Lessons from Cadillac Fairview's First Leader

## Introduction<sup>1</sup>

Canada's postwar years formed the backdrop for the success of the development industry, since the dramatic increase in both the birth rate and immigration numbers generated a much higher demand for housing.

Two companies, the Cadillac Development Corporation (Cadillac) and the Fairview Corporation (Fairview), were established in this period and structured themselves to meet growing Canadian needs. The eventual decision to merge these complementary organizations took place in May 1974. This decision marked a significant milestone for the development industry in Canada because the combined entity known as Cadillac Fairview Corporation (CF) became a pioneer in urban development. The joint organization went on to control a significant portion of the Canadian real estate industry with a focus on the Greater Toronto Area.

By 1979, CF possessed one of the largest and most diversified real estate portfolios in North America. The merger resulted in the creation of suburban subdivisions and residential neighbourhoods such as: Erin Mills in Mississauga with 8,000 acres of planned space; apartment buildings such as Park Place in Toronto with nearly 2,000 suites; downtown shopping centres such as Toronto's Eaton Centre with nearly 2 million square feet of retail space; and skyscrapers such as the original two TD Towers, which soared to more than 300 metres (1,000 feet) in height. These development projects and others became recognizable landmarks that would continue to be utilized for decades.

The success of the merged company stemmed from its people. One of the key figures was Cadillac Fairview's co-founder and first Chief Executive Officer, Allen Ephraim Diamond ("A.E. Diamond" or "Eph", as he was known, pronounced "eee-f"). According to former Ontario Premier Bill Davis, Diamond was crucial in guiding the organization through its early years, making strategic choices that nurtured long-term success at Cadillac Fairview. Davis describes Diamond as "The best of the development industry. He was one of the finest, most decent individuals that I met during my time in public life. He was the real spirit of Cadillac Fairview and it is safe to say that he was highly regarded by his contemporaries."<sup>2</sup>

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<sup>1</sup> The story of The Cadillac Fairview Corporation is a tale of two companies, Cadillac Development Corporation Limited and Fairview Corporation Limited, and the story of a few individuals with an entrepreneurial spirit and passion for real estate. All monetary values in this case study are in Canadian dollars unless stated otherwise.

<sup>2</sup> This report is told from the perspective of the first Chief Executive Officer of the corporation, Allen Ephraim Diamond. Sandra Martin, 2008.

## Eph Diamond, 1979

By 1979, Eph Diamond was at the twilight of a very successful business career. Then 58 years old, he found himself looking back on his time in the real estate industry. He recalled the hectic pace of previous years and reflected on his accomplishments. He realized that he had risen to become an industry pioneer, despite his humble beginnings. Back in his teens, he could not have imagined that he would attend university, let alone go on to become the first CEO of Canada's largest real estate development company. As the 58-year-old Diamond looked out the window of his office, he smiled to himself and thought back to his early days in the business. Back then, his plan was simple and modest, he recalled: "Build 50 houses a year and invest the profits in an apartment building of 50 units."<sup>3</sup>

That was the younger Diamond's thinking when he and his partners founded the Cadillac Contracting and Development Company. They took this step in 1953, when Diamond was 32 years old. Diamond served as President of the company for more than 20 years and managed its transition from a small start-up to its evolution into a public entity. Two decades later, Diamond was at the forefront of Cadillac's 1974 merger with Fairview, after which he held the position of CEO of the organization. Fast forward to 1979, and Diamond had been working in the real estate industry for more than 30 years. By then, Cadillac Fairview's assets had grown to nearly \$2 billion.

CF's list of real estate assets broke down as follows: 16,000 rental units, 35 different shopping centres, over 4 million square feet of industrial rental space and more than 10 million square feet of office space and mixed-use property. The shopping centres, industrial space, office and mixed-use property were equivalent in size to approximately 407 football fields.<sup>4</sup>

In hindsight, the older Diamond was incredibly proud of Cadillac Fairview's success. It had evolved into a dynamic and exciting corporation. However, he knew that the company had the potential for even further growth in the future. However, as he stared out the window of his office gazing at the city skyline, he began to ponder: Should Cadillac have merged with Fairview in the first place? Had he led the company in the right direction? Was entering the U.S. market a good decision?

This case study will attempt to provide background on past decisions made by the corporation, from the perspective of Eph Diamond, Cadillac Fairview's first Chief Executive Officer. This case will also describe the evolution of the Canadian development industry during this period. It will examine the organizational changes that Cadillac Fairview experienced as the company morphed from its entrepreneurial roots into a large public company with sophisticated management capability, including its geographic expansion from Toronto to other parts of Canada and the United States.

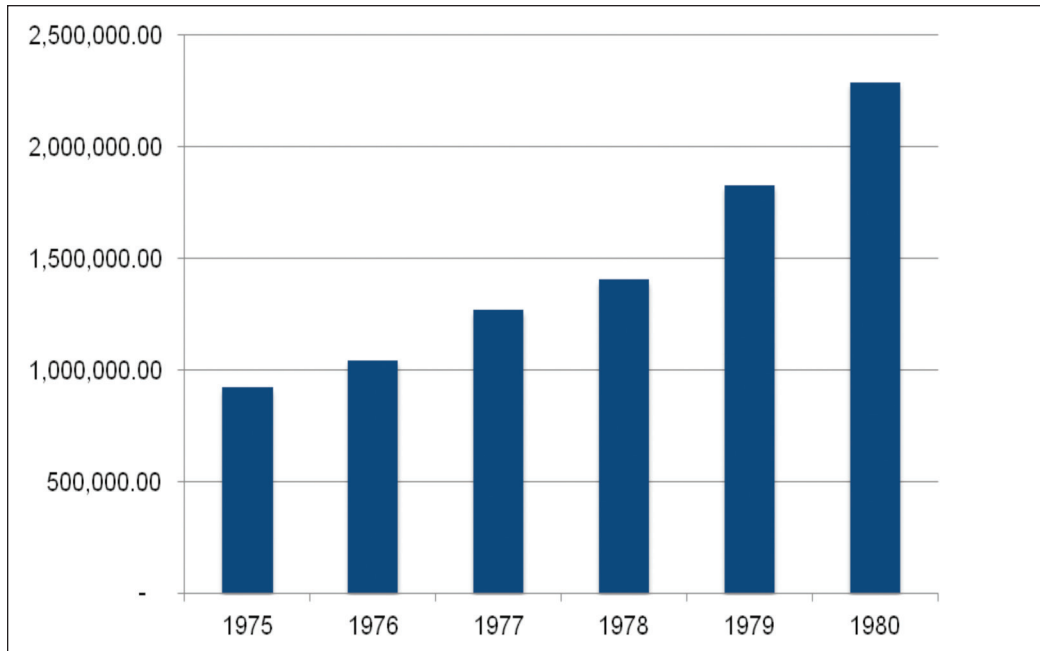
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<sup>3</sup> Stoffman, 2004, p. 10.

<sup>4</sup> One football field = approximately 57,600 square feet, or 5,351 metres squared.

**Figure 1**

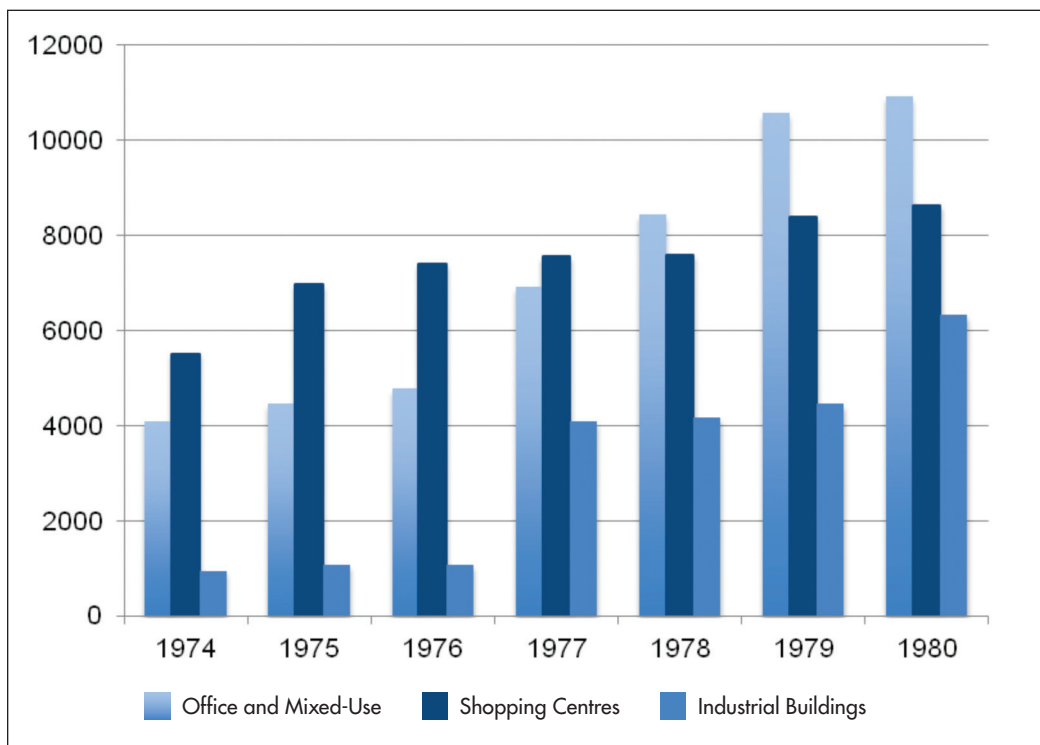
Cadillac Fairview Real Estate Assets (in thousands of CAD dollars) – 1975 to 1980



Source: Cadillac Fairview annual reports

**Figure 2**

Cadillac Fairview Growth (in thousands of square feet) – 1974 to 1980



Source: Cadillac Fairview annual reports

## A Brief Overview of the Canadian Real Estate Industry

In the 1930s and early 1940s, there was no land development industry in Canada. Although the country was home to real estate investors, builders and others who profited from real estate, no companies existed to bring all of these components together.<sup>5</sup>

After the Second World War, the Canadian housing and business landscape began to change dramatically. Firstly, war veterans began to return home in large numbers. The baby boom ensued, resulting in family growth to an average of four children per household. Secondly, the immigrant population exploded, with Toronto becoming the city of choice for postwar immigrants not only from the United Kingdom and the Netherlands but also from Italy, Portugal and Greece. Combined, these factors forever altered the housing landscape and led to an increased demand for shelter, and more specifically for multi-family housing.

During the war years, the majority of construction concentrated on military efforts. As a result, many cities within the country, including the Greater Toronto Area (GTA), lacked residential dwellings. An immediate housing shortage occurred after the war.

In order to deal with the supply shortage, the Canadian government began to implement policies that increased the quantity of available residences and improved the affordability of housing. These programs were designed to stimulate the housing market with mortgage financing and favourable interest rates. For example, the National Housing Act<sup>6</sup> was passed in 1938 by the federal parliament, with the purpose of providing both affordable housing and employment opportunities for Canadians.

On January 1, 1946, the Central Mortgage and Housing Corporation (CMHC), a federal Crown Corporation,<sup>7</sup> was established to lead Canada's housing programs. CMHC's mandate was to administer the National Housing Act. The primary duty of the new Crown Corporation would be 'one of finding ways and means for private enterprise to look after needs in the economic field.'<sup>8</sup> This legislation favoured and enabled the development of housing by large scale developers. In 1949, the Housing Act was broadened to include federal-provincial programs that funded publicly owned and provincially managed housing for low-income families, seniors and disabled persons.<sup>9</sup>

In order to make home ownership accessible to Canadians, CMHC introduced Mortgage Loan Insurance in 1954. This enabled the Crown Corporation to take on mortgage financing with a 25% down payment. That same year, the banks were permitted by law to finance mortgages for the first time. This decision dramatically changed the real estate industry in Canada.

The first real estate development companies emerged in the 1950s in response to housing demand and government legislation. Most of these organizations were started by entrepreneurs who recognized economic opportunities in apartment and suburban expansion. These individuals were not afraid to take risks. They broke away from single-family bungalows and moved towards spacious, convenient, modern living, which involved rapid expansion into the suburbs.

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<sup>5</sup> Lorimer, 1978, p. 7.

<sup>6</sup> This act replaced the Dominion Housing Act of 1935. W.C. Clark, Deputy Minister of Finance at the time and one of the principal architects of the act, stated his view of home ownership. He said that while "it may entail great sacrifices by the family, but the family which is not willing to make sacrifices for a home of its own might... be better off not to own its own home. Having a home of your own usually is... the reward of saving and sacrifice and not a gift from a benevolent government." Pp. 109-110, Wardhaugh.

<sup>7</sup> In some countries, Crown Corporations are referred to as State Owned Enterprises (SOE).

<sup>8</sup> Wardhaugh, p. 289.

<sup>9</sup> McAfee, 2012.

In the 1960s, more baby boomers began to leave their parents' homes and break out on their own. Many were not yet ready to purchase houses of their own and instead sought apartment units. Every city in Canada saw the rise of its own group of apartment developers who worked to satisfy this demand. Cadillac Development Corporation, the largest landlord in Ontario at the time, emerged at the forefront of housing providers in Toronto. Many other development companies grew in this context, including Greenwin Developments, The Meridian Group and Belmont Construction.<sup>10</sup>

In the 1970s, Canada's economy continued to grow rapidly. Evidence of prosperity could be seen across many industries. However, this decade was also marked by inflation, double-digit interest rates and unemployment.<sup>11</sup> The difficult economic climate was largely a result of the dramatic increase in oil prices after the members of the Organization of Petroleum Exporting Countries (OPEC) instituted an oil embargo. Oil prices subsequently increased dramatically.

As the 1970s progressed, more mergers and takeovers occurred, resulting in much larger real estate corporations than ever before. According to the Royal Commission on Corporate Concentration, by 1976 there were 35 leading publicly traded real estate companies in Canada whose assets were valued at \$6.67 billion. Cadillac Fairview was the largest in the group with assets of \$1.05 billion, followed by Trizec, which had assets of \$899 million and Campeau, with assets of \$481 million. (See Figure 3.)

### Figure 3

Comparative Public Real Estate Data (in thousands of CAD dollars) – 1976

Company Name	Total Assets	Gross Revenues	Cash Flow	Net Income
<b>1 Cadillac Fairview</b>	<b>\$1,045,157</b>	<b>\$200,396</b>	<b>\$40,827</b>	<b>\$16,489</b>
2 Trizec	899,714	170,327	17,814	3,234
3 Campeau	481,695	139,696	16,467	7,568
4 Oxford	474,800	45,911	10,327	3,033
5 Deltan	390,495	67,772	9,466	1,970
6 Abbey Glen	387,586	107,747	16,387	8,276
7 Bramalea	279,143	66,339	9,812	3,540
8 S.B. McLaughlin	256,402	61,091	9,141	3,930
9 Daon	209,963	102,939	12,921	6,694
10 Nu-West	187,143	143,339	13,329	13,953
25 Four Seasons	67,123	31,168	3,447	1,505
<b>Total Market</b>	<b>\$6,675,078</b>	<b>\$1,800,960</b>	<b>\$254,746</b>	<b>\$126,070</b>
<b>Cadillac Fairview Market Share</b>	<b>16%</b>	<b>11%</b>	<b>16%</b>	<b>13%</b>

Source: Royal Commission on Corporate Concentration

<sup>10</sup> Goodman, 1988, p. 15.

<sup>11</sup> In the late 1960s, interest rates began to rise. By the end of the 1970s they had reached 13%.

Publicly traded firms such as those listed above were not the only players on the development scene. Private firms also played a big role. Olympia and York, owned by the Reichmann family, was the largest of the private real estate companies with estimated assets of between \$750 million and \$1 billion, making it nearly as large as Cadillac Fairview.<sup>12</sup>

While the above data focuses on the volume of assets held by Cadillac Fairview, the top grossing company, CF also possessed the most dominant and powerful image. The Royal Commission attributed that to the following factors:<sup>13</sup>

1. The company was publicly owned.
2. Its projects were well known and prestigious.
3. The company was well publicized in the news.
4. The industry was fragmented and lacked a single trade association.
5. The last statement led to an apparent leadership vacuum, which Cadillac Fairview, by virtue of its high profile, appeared to fill.
6. Ephraim Diamond, Chairman of Cadillac Fairview, had earned the respect of the industry.

## Diamond in the Rough

Born in Montreal in 1921 to an immigrant shoemaker, Allen Ephraim Diamond grew up in Brockville, Ontario. After he finished high school, his mother felt that Ephraim should work at the local five-and-dime store. However, his father insisted that his son attend university even though the family could not afford the tuition. In order to enroll him, Diamond's father borrowed \$100 against his own life insurance policy. The younger Diamond worked vigorously to save up the remaining \$100. After being admitted to Queen's University in Kingston, Diamond took a job at the campus radio station to fund the remainder of his post-secondary education.

In 1943, Diamond graduated with an Honours Electrical Engineering degree from Queen's. Shortly thereafter, he enlisted in the Royal Canadian Navy. While in the navy, he became close friends with Joe Berman, the man who would become his future partner. Despite his chronic seasickness, Diamond spent three years on the high seas from his postings in Newfoundland and Bermuda.

After leaving the navy, Diamond set his sights on the business world once again. He landed his first position in the real estate industry as a construction project manager at Principal Investments, a leading builder in Toronto. It was there that he learned a great deal about the construction business. Through this experience, he met Jack Kamin, who was involved in the lighting business. Joe Berman, Diamond's navy colleague, had worked for Kamin and introduced the two.

Although Kamin knew little about the real estate business, he realized that Canada's demographics were changing. For example, as a result of the baby boom and postwar immigration, Toronto's suburban population increased by 82 per cent between 1941 and 1951. In addition, average weekly salaries were gaining momentum and increased steadily from the mid-1940s onwards.<sup>14</sup> These changes resulted in an increased demand for housing and suburban development.

Kamin believed that business opportunities could be found in this changing environment. He also felt that Diamond had the right personality and the potential to become an outstanding entrepreneur, and he tried to persuade the latter to enter the construction business. However, Diamond was still hesitant to leave Principal Investments.

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<sup>12</sup> Gluskin, 1975.

<sup>13</sup> Gluskin, 1975.

<sup>14</sup> Martin, 2010, p. 151.

By the end of his fifth year at Principal, Diamond grew concerned about his long-term progress within the company. He went to the office on a Saturday for a prearranged meeting with his boss. However, his manager did not show up. The following Monday, Diamond went to speak with his boss and asked if he knew about the meeting. His boss replied, “Something came up. I couldn’t make it.” After being heavily committed to the company, Diamond said he felt frustrated and disheartened by his manager’s lack of regard for his time and commitment. After this disappointing exchange, Diamond submitted his resignation to Principal Investments.

## Transforming the Urban Landscape

Free from any commitment to his former employer, Diamond could now entertain thoughts of working with Berman and Kamin. After a few discussions, the three of them decided to go into the development business together. In order to finalize the details, the men consulted with a lawyer, Eddie Goodman. The four men arranged to meet at a restaurant on Queen Street East to discuss the potential partnership.

It was a productive meeting. They agreed on a 40-40-20 percentage split of profits between Diamond, Kamin and Berman, respectively. However, all decisions about the company would have to be unanimous and the contract would last three years. With no financial assets and a heavily mortgaged home, Diamond borrowed \$40,000 from Kamin to put into the business, at a 12 per cent interest rate.<sup>15</sup> Kamin invested \$40,000 of his own money, while Berman contributed \$20,000. The trio agreed that the company would be capitalized at \$100,000. At this time, the men also agreed that the company would build apartment buildings and houses. They were also unanimous on the idea that rent money collected from the apartment units would serve as cash flow with profits put back into the apartment buildings for equity. The men also decided to create the most finely-built, high-quality real estate of their time.

With the logistics now settled, the men realized that the new business needed a name. After dinner, the foursome went outside and climbed into Kamin’s 1951 Cadillac. At that moment, it struck them that they should be portrayed as the “Cadillac” of the development industry — their company would set a high standard for excellence. Their lawyer, Eddie Goodman, commented that it was unlikely that they would be allowed to name the company after the prestigious automobile, but he nevertheless submitted the name to the Ontario Ministry of Corporate Affairs. To the surprise of all of them, the name was accepted.<sup>16</sup> Following all of the administrative and planning work, the doors to Cadillac Contracting and Developments Limited opened in March 1953.

In its early years, Cadillac built homes for sale, as well as building and managing small apartment buildings for rent. While Kamin provided the biggest chunk of investment in the company, he was less involved in operations, and only participated in major projects. Berman was in charge of the housing side while Diamond focused on managing the development of apartment buildings.

By 1956, at the end of the three-year contract, Cadillac had experienced successful growth. By now it was operating more than 500 small apartment rental units located primarily in Guelph and Kitchener. As a result, all three men wanted to extend the contract. However, Diamond wanted Berman to benefit from an equal percentage in the company, so the contract was renegotiated to reflect a three-way split of profits.

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<sup>15</sup> While the interest rate was high, Kamin was Diamond’s only source for funding.

<sup>16</sup> General Motors had failed to register the name. And the partners argued that the name was derived from an early French Canadian explorer. After Cadillac Development Corporation Limited was registered, the car manufacturer registered the name, prohibiting its use by anyone else.



In 1958, John Daniels, an architect and developer, was hired. In 1961, Gerald Shear, a chartered accountant, also joined the organization. At this point, banks required a personal guarantee to finance construction. Since Kamin was significantly wealthier than the other founders, he was not comfortable giving a personal guarantee that might leave him exposed to significant loss. Moreover, he believed that the building boom was coming to an end and wanted to reduce his exposure to urban development. Diamond and Berman agreed to an amicable parting of the ways. They then oversaw a friendly buyout of Kamin. The contract was renegotiated and the company was renamed Cadillac Development Corporation Limited.

Business continued to flourish in the 1960s. The company's management style was nimble and was characterized by a lack of red tape. In those years, Cadillac took a lighthearted approach to management. As a result, no formal documents were drawn up to outline policy. However, the company relied on a few basic principles:

1. Treat employees as important and valuable assets;
2. Operate with honesty and integrity;
3. Build high quality buildings by focusing on construction management.

In order to follow these principles, Cadillac introduced many physical innovations into apartments — features that are now industry standards. For example, Cadillac pioneered health club facilities, individually-controlled heating and air conditioning in units, underground parking, visitor parking and grounds landscaped with trees and fountains. It also implemented such quality elements as rust- and maintenance-free aluminum balcony facings with baked enamel finishes, double entrance doors to suites, two-storey penthouses, two-storey or mezzanine lobbies, eat-in kitchens with breakfast nooks and pressurized corridors to prevent cooking odours from filtering into hallways.<sup>17</sup> The attention that Cadillac paid to these details and to its own principles helped build widespread acceptance of the organization by the public.

## Growth and Diversification

Cadillac started to build a name for itself and a reputation for high-quality apartment buildings. As a result, “in the apartment boom of the '60s, Cadillac towered over its rivals and tackled increasingly bigger projects.”<sup>18</sup> By the late 1960s, Cadillac had erected many apartment buildings in Toronto, including 4000 Yonge Street, Park Towers, Bretton Place, Rosedale East and Village Green. These large projects each hosted between 500 and 2,000 units per building. Prestigious projects such as these transformed Cadillac from a small apartment developer into a well-respected and integrated real estate company engaged primarily in the construction and development of income-producing real estate (apartment buildings) for investment.<sup>19</sup>

Interestingly, the company's geographic footprint remained largely in Ontario. Diamond explained, “Our resources were utilized to the full locally, [and] it would have been pointless to look elsewhere when there was so much opportunity in Ontario.”<sup>20</sup> While the company was growing, the Ontario marketplace kept the organization operating at full tilt.

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<sup>17</sup> Magee, 1964.

<sup>18</sup> Goldstein, 1979.

<sup>19</sup> *Financial Post* Information Card, Cadillac Fairview Corporation Limited, 1975.

<sup>20</sup> Stoffman, 2004, p. 15.

As the 1960s waned, Cadillac needed to attract additional sources of financing in order to grow. Management faced a choice of either raising private institutional capital or taking the company public.

On November 21, 1968, Cadillac was converted into a public company and 1.2 million common shares were issued at \$5 per share as part of an initial public offering.<sup>21</sup> Over the next five years, the company's assets doubled from \$170 million to \$330 million.<sup>22</sup> The share price fluctuated from a low of \$5.37 to a high of \$13.75. These numbers represented positive performance. However, Diamond reflected in hindsight on the decision and wondered whether taking the company public had been the best choice. Perhaps the pressure of stringent reporting and meeting shareholder expectations was more labour-intensive and restrictive than the company's leaders had first anticipated.

By the early 1970s, management grew concerned about the possibility of rent control and how it would affect business.<sup>23</sup> Since Cadillac's most basic asset was its Ontario residential rental suites, the company worked to diversify its portfolio. It made forays into suburban residential housing, office buildings, and shopping centres. The organization was also contracted for third party developments.<sup>24</sup>

In this context, Cadillac formed a new division known as Cadillac Commercial Properties to develop commercial real estate. The company also formed another division known as Cadillac Shopping Centres. These years saw the development of a very close relationship between Cadillac and one of its third party developers, the Fairview Corporation. Fairview represented the real estate division of Cemp Investments Limited. Cemp was in fact a holding company for the four children of Samuel Bronfman, the legendary distillery tycoon who had merged Joseph E. Seagram and Sons with Distillers Corp. to form Seagram Company Ltd., the world's largest manufacturer of liquor. Clearly, the Cemp and Fairview organizations had powerful friends and solid connections within the Canadian business community.

Under the direction of Leo Kolber, Samuel Bronfman's trusted confidant, and Neil Wood, a Harvard MBA, Cemp was transformed from "a passive holding company into an active investor."<sup>25</sup> During the 1950s and 1960s, Fairview built a strong reputation in Canadian real estate and became known for its innovative downtown shopping centre developments.<sup>26</sup> In the 1960s, Diamond developed a close relationship with Kolber and Wood. Although he was Cadillac's chief, Diamond served as a committee member on many of Fairview's projects.

In 1971, Gerry Sheff, a Harvard MBA, was hired to join the Cadillac team. Around the same time, Leo Kolber approached Cadillac with a proposition to consider the joint purchase of a company — Canadian Equity and Development Corporation Limited. This public company owned the Mississauga land that would become the Erin Mills Project. Under this joint venture, these 8,000 acres would be developed to become Canada's largest fully integrated residential community.

In 1972, the joint purchase was completed and Cadillac formed the New Communities Group to develop the project. The acquisition of Canadian Equity and Development furthered the relationship between Cadillac and Fairview and undoubtedly served as the catalyst for the subsequent merger of the two firms.

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<sup>21</sup> *Financial Post* Information Card, Cadillac Fairview Corporation Limited, 1975.

<sup>22</sup> *Financial Post* Information Card, Cadillac Fairview Corporation Limited, 1975.

<sup>23</sup> Gluskin, 1975.

<sup>24</sup> Lorimer, 1978, p. 41.

<sup>25</sup> Stoffman, 2004, p. 21.

<sup>26</sup> Fairview is responsible for developments such as the Pacific Centre in Vancouver (1973) and the Eaton Centre in Toronto (1977).

## The Birth of a Giant

*“I join you in your high expectations for the future of Cadillac Fairview and grant that, while you have given birth to a giant, it has its feet on the ground and its face towards the sun.”<sup>27</sup>*

According to a document dated February 27, 1974, the Cadillac Development Corporation agreed to merge with The Fairview Corporation of Canada and the Canadian Equity and Development Corporation. It was said that this merger “created the IBM of real estate, the largest public real estate company in North America.”<sup>28</sup>

From an outside perspective, the merger of Cadillac and Fairview seemed to be a natural partnership. Fairview built shopping centres and office buildings, while Cadillac constructed houses and apartment buildings. Their talents and activities were complementary and their combined assets made for an attractive and diversified portfolio. However, each organization operated differently.

Fairview fostered a corporate environment that included formal academic training in business management, while Cadillac was entrepreneurial and its managers learned on the job. In order to mitigate these differences, a strong Chief Executive Officer was needed. Moreover, new management techniques that represented a blend of the two former organizations had to be introduced. Some might have expected that a Fairview executive would become CEO of the newly-formed giant, since the Bronfman family owned 38 per cent of the merged company.<sup>29</sup> (Cemp, the Bronfmans’ holding company, continued to retain 38 per cent of the merged company after CF went public.) However, the board did not go with a Fairview executive. Instead, it decided that the former Cadillac leader, Ephraim Diamond, would lead the merger as CEO.

As Richard Thomson, former CEO of TD Bank, who worked closely with Diamond on a number of projects, said; “Eph was the obvious choice for CEO. He had the personality and the knowledge to be the team leader. He was broad-minded, he dealt with people very well and very easily and he had extensive experience in building.” Since a Cadillac man was chosen as CEO, some recognition of the Fairview side of the equation was in order. In turn, Fairview’s leading manager, Neil Wood, was promoted to President.

According to the provisions of the amalgamation agreement, 1.4 shares of the merged company were exchanged for one Fairview share; 1 share of the merged company was exchanged for 1 Cadillac common share; and 1.2 shares of the merged company were exchanged for every Canadian Equity share. In total, 50 million common shares were issued. On May 31, 1974, this billion-dollar merger was complete.<sup>30</sup> However, according to Cadillac Fairview’s first annual report, the organizational challenges posed by the merger were exacerbated by general economic conditions.

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<sup>27</sup> Cadillac Fairview Corporation Annual Report, 1975.

<sup>28</sup> Corcoran et al, 1984, p 121.

<sup>29</sup> Stoffman, 2004, p. 79.

<sup>30</sup> Approximately \$5 billion in 2012 dollars, according to the Inflation Calculator, which uses monthly CPI statistics in order to convert changes in the cost of a figure.

## Cultural Challenges, Organizational Design & Financing Decisions

The main challenge that Diamond addressed as CEO was the need to reconcile the differences in management and operating styles of the two companies. (See Exhibits 1 to 3 in the Appendix for an evolution of corporate management structure.)

Fairview's head office was located in downtown Toronto while Cadillac had just moved its head office to Sheppard Avenue and Leslie Street in North York. At first, there was debate as to whether Cadillac and Fairview would continue to oversee their respective operations from two separate locations. However, it was Diamond's belief that in order for Cadillac Fairview to thrive as one company with one culture, the organization needed to operate in alignment under the same roof. As he explained, "Part of my job was to get the idea around to all of the executives and officers that long-term return on investment would come if we built a strong reputation. For this to happen, I felt it was important for us to all be together in one building. For better or for worse, we would stand together and build a strong company that would deliver strong results." By the end of August, Diamond and his team came to an agreement. All head office personnel from Fairview would be integrated into Cadillac's more northerly office.

Another challenge that Diamond moved quickly to address was the new company's organizational design and structure. Aware that corporate hierarchy can stall productivity within large organizations, Diamond was keen to ensure that employees felt they could execute decision making efficiently. As a result, CF's organizational structure was designed with five clearly defined groups that would allow evolution, flexibility and productivity. "It was an innovative structure," Diamond explains. "There wasn't an organization we could model because there were few real estate companies in all of the fields that we were involved with." According to Wood the new structure allowed "everyone to run their own ends of the business."

The five groups also allowed the organization to effectively manage the company's diversification into all facets of the real estate business. The five groups were divided as follows:<sup>31</sup>

- The **Corporate Development Group**'s role was to broaden and diversify the company geographically and into new facets of real estate, including the acquisition of companies and properties.
- The **New Communities Group**'s mandate was to develop raw land into new communities sufficient to provide urban environments for people to live and work. The Erin Mills project — one of great size and importance — was the responsibility of this group.
- The **Residential Group** was to focus on housing of all types that included: sale, rental, low density, and subdivision, integrated and mixed density.
- The **Shopping Centres Group** worked on the planning, developing and marketing of shopping centres. This included a focus on merchandising, leasing and tenant relationships.
- The **Urban Development Group** was to identify and pursue large-scale multi-use redevelopment opportunities in downtown Toronto. This included urban projects such as office, retail, hotel and parking.

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<sup>31</sup> Cadillac Fairview Corporation Annual Report, 1975.

Each group had its own set of responsibilities ranging from land use, planning, assembly and design to project management and marketing. Each was encouraged to operate with a decentralized approach. Although each group maintained its independence and authority, employees were encouraged to seek ideas and consult with other groups in order to enhance project quality and prevent siloed thinking. Ongoing shared activities warranted the participation of members from other groups whose skills and experiences were complementary. The groups shared support for finance and administration<sup>32</sup> and each group succeeded in accomplishing its respective goals and tasks.

Another challenge to be addressed was the company's financing. Cadillac's primary banker was the Canadian Imperial Bank of Commerce (CIBC) while Fairview's primary banker was the Toronto Dominion Bank (TD). Given Fairview's intimate relationship with the bank<sup>33</sup> prior to the merger, TD was chosen as the lead bank of the newly formed organization.

By the end of fiscal 1976, Cadillac Fairview had amassed assets in excess of \$1 billion, which gave the organization significant financial leverage. CF's major source of financing came from mortgages secured on the company's income-producing property, including both completed projects and those under construction. The majority of loans were carried on CF's balance sheet as long-term debt. Most notably, the organization had mortgage loans secured on its income-producing properties in the amount of \$455,671,000 at a 7.9% interest rate, and in the amount of \$67,947,000 at a 9.7% interest rate on income-producing properties that were under construction.

A collaborative relationship with TD Bank provided CF with the opportunity to innovate with financing techniques to provide capital for the Eaton Centre in Toronto and the Pacific Centre in Vancouver. According to Richard Thomson, former CEO of TD Bank, "The TD Centre was financed with 95 per cent debt and 5 per cent equity. It was unique; the concept was that you had two strong shareholders. You knew that if you made a call for equity, either could provide the money, so why not go to the market with a maximum amount of debt with the guarantee of the bank and Cemp and sell it as a bank credit to the bond market?!"<sup>34</sup> Although the lawyers' reaction was negative at first, I felt it was no different than providing a line of credit. It was the bank putting up a guarantee for which we would be paid. It was a long struggle, but we were able to convince everyone that it was a good idea. TD Bank would only finance this way when we owned equity in the business, or else there was not enough of a premium on the guarantee."

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<sup>32</sup> Diamond's organization meets the requirements spelled out by Lawrence and Lorsch in their work on Organizational Differentiation and Integration.

<sup>33</sup> Kolber had played a key role in the construction of the TD Centre, a landmark development project which began the physical transformation of Toronto's financial centre.

<sup>34</sup> Stoffman, 2004, p. 42.

## Urban Challenges and CIPREC

Although the urban development industry was among the engines that fostered economic growth from the postwar era until the 1970s, it was unpopular and was criticized by many members of the public. In addition activists alleged that the developers were ‘buying’ favours from both politicians and bureaucrats in order to obtain special privileges.

Faced with these criticisms, various real estate developers came together in 1970 to form an association — the Canadian Institute of Public Real Estate Companies (CIPREC). The association would represent the interests of its members before government bodies and deal with industry wide challenges.<sup>35</sup>

One week after the merger of Cadillac and Fairview, Diamond was elected president of the CIPREC. He made his views known immediately. “Government representatives have a responsibility to those who will live in the community in years to come and should encourage development to ensure a city’s long term sustainability.” As a result, Diamond embarked on and championed an educational and public awareness program. He was aiming to make the public more aware of the difficulties faced by developers. “It is a difficult task to inform the public,” said Diamond. “Developers have a social purpose as an industry — to provide accommodation for the public. That is our function and we can only do it if we fight against various interest groups that prevent us from carrying out that function.”<sup>36</sup>

The CIPREC fought to show that Canadian cities had been developing in an attractive and functional manner and explained its opposition to red tape. “When good development projects are delayed because of the lengthy approval process, the more it will cost the public.” Diamond also lobbied against such issues as the City of Toronto’s 1974 building freeze on all construction higher than 45 feet tall.<sup>37</sup>

Despite several hurdles, the newly formed Cadillac Fairview experienced positive growth. Demand for suburban housing continued to increase. As well, the financial performance on properties improved, and retail sales continued to be strong. All of this resulted in additional rental cash flow for the organization. Cadillac Fairview’s large asset base of completed income property protected the company against inflation.<sup>38</sup> Land bought at reasonable prices in previous years provided a financial cushion as long as the balance sheet used book value.<sup>39</sup> In the first year after amalgamation, CF’s common share price fluctuated between a low of \$9 and a high of \$19. Earnings per share were 53 cents and a dividend of 10 cents per share was declared.

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<sup>35</sup> Howe, 1975.

<sup>36</sup> Howe, 1975.

<sup>37</sup> Borders, 1974.

<sup>38</sup> Always assuming rental rates could be frequently reset.

<sup>39</sup> As distinct from mark to market which became commonplace in the 1990s.

## A Great Adventure: Entering the U.S. Market

Shortly after the merger, under the direction of Neil Wood, Cadillac Fairview management began to consider making an entrance into the United States. The company enjoyed a large share of the Canadian market and management felt that ample opportunities for success could be found south of the border.

When evaluating the U.S. market, Wood immediately recognized its vast differences. The U.S. market was much more fragmented, consisting of a large number of smaller developers. This meant that when these developers identified a business opportunity, they often struggled for financing. Diamond explained that for Cadillac Fairview, “the issue was not finding money, but finding opportunity.”<sup>40</sup>

Yet shopping centre development in the U.S. proved to have significant disadvantages for CF. At the time, Canada was home to three national department store chains (Eaton’s, The Bay and Simpsons-Sears). Once Cadillac Fairview had built a relationship with one of the three retailers and secured its store as anchor<sup>41</sup> to the mall, that shopping centre was almost guaranteed to succeed. In the U.S., on the other hand, multiple retail players were operating in every region. Therefore, developers in the U.S. had less negotiating leverage than those in Canada.

In order to mitigate the differences in business environments, CF created a 75–25 split in a joint venture (JV) with American developer Peter Leibowitz. This partnership was formed in 1976, under the U.S. Cadillac Fairview Shopping Centers (U.S.) Ltd. with headquarters for the venture in New York. Given CF’s strong financial position, the new venture expanded aggressively. Within two years, this JV boasted seven successful projects. The largest project, Galleria of White Plains, was located in White Plains, New York, 32 km north of New York City. This building measured 840,000 square feet with four levels of retail and two anchor department stores — Macy’s and Sears. The mall also accommodated 2,800 parking spaces.

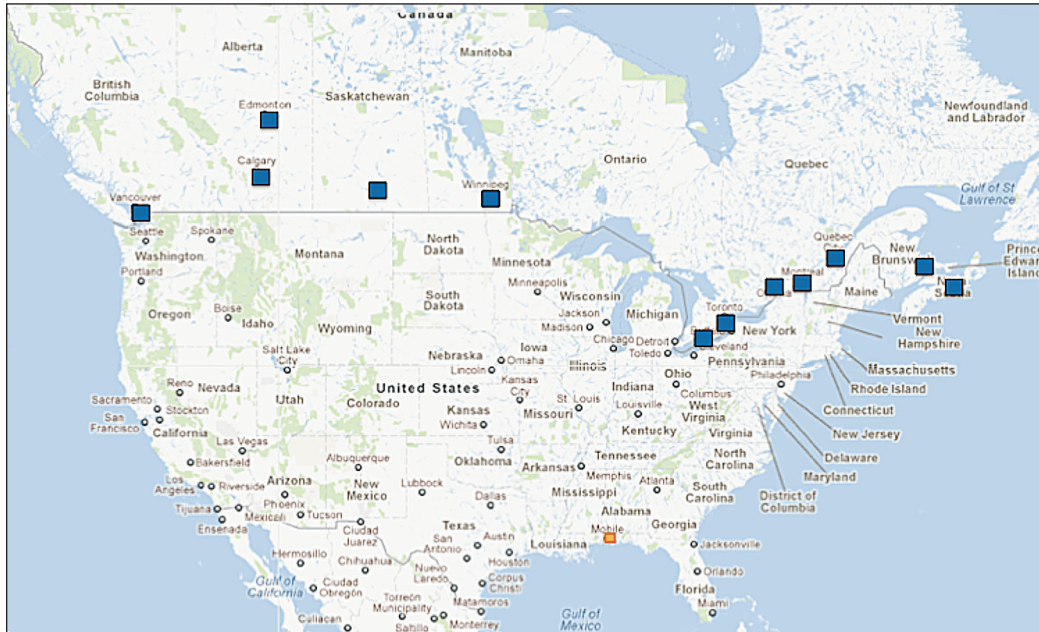
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<sup>40</sup> This was largely a result of Cadillac Fairview’s strong relationship with the Toronto Dominion Bank.

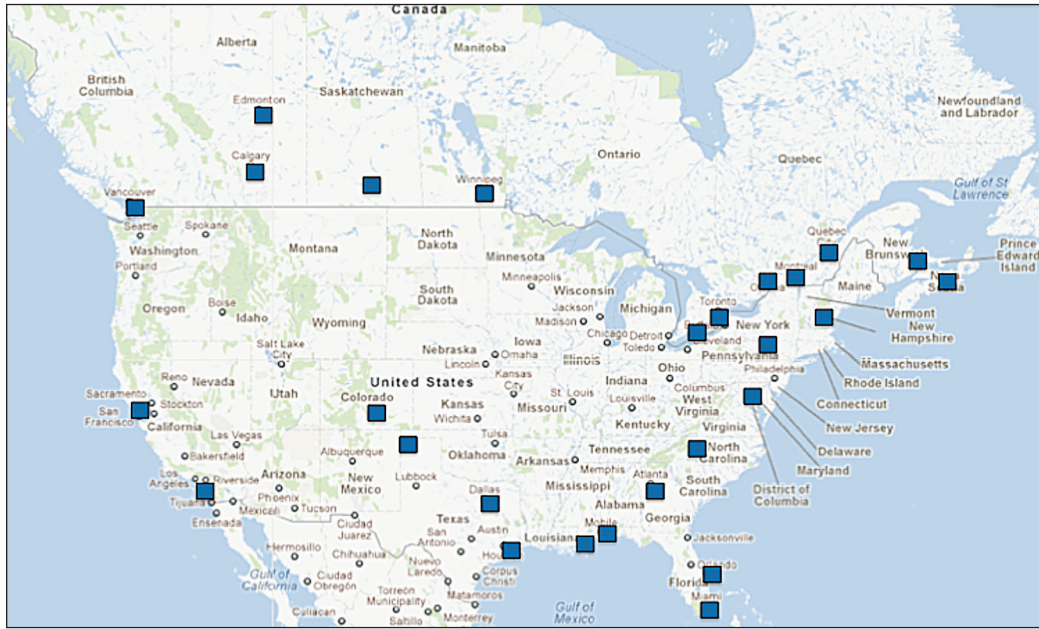
<sup>41</sup> An anchor store is the largest tenant of a shopping mall and is typically a well known department store or retail chain. The anchor store is important to a development project as it is used to draw traffic to a location, resulting in more visitors to the entire site.

**Figure 4**  
Cadillac Fairview Geographic Footprint – 1975 and 1980

1975



1980





## The Irvine Ranch

The Irvine Ranch consisted of 80,000 acres of prime land in southern California. It provided serviced land for sale/lease as well as developing income-producing properties. The ranch was owned by the James Irvine Foundation, which was created in 1937 to promote the “general well-being of the citizens and residents of the state of California.”<sup>42</sup> When the Federal Tax Act in the United States was amended to prohibit not-for-profit foundations from owning a controlling interest in a business, the foundation was forced to sell its shares and diversify its holdings.<sup>43</sup>

Towards the end of 1976, John Daniels, who was CF’s executive vice-president of the Corporate Development Group, encouraged Diamond to look at the ranch. Cadillac Fairview had never developed a property of such scale in Canada, let alone in the United States, but Daniels felt that the location and size of the ranch made it ideal for development.

Diamond assessed the ranch by conducting research that included frequent site visits to the property, studies for due diligence and pro-forma analysis.<sup>44</sup> Cadillac Fairview determined that if the company could develop 1,000 acres per year for 20 years, then it could afford to pay a maximum of US\$280 million for the land. Eager to make the purchase, Diamond arranged for financing with four banks to support an offer of US\$265 million, broken down as \$145 million in cash and \$120 million in notes. This offer exceeded a subsequent bid of \$125 million made by Mobil Oil Corporation.

Towards the end of 1976, news of CF’s interest hit the press. The *Wall Street Journal* reported that “Cadillac Fairview intends to acquire Irvine Co., a closely held Orange County land developer, for \$265 million. Mrs. Smith, the largest owner of the Irvine Stock, said that the Cadillac offer is ‘most interesting’ but that she believes there will be other offers higher than Cadillac’s.”

She was right. Shortly after CF submitted its \$265 million bid, Mobil matched it. In an open auction, CF raised its bid to \$269 million and Mobil immediately increased its bid to \$273 million. “We got up to \$282 million and they were still bidding higher,” Diamond recalls. Concurrently, a privately-held, Detroit-based real estate company, SMBH&Z Inc., came on the scene and joined the bidders. Its principal stockholders were Charles Allen Jr. and A. Alfred Taubman, as well as Henry Ford II. Diamond grew very concerned, since he was unwilling to bet the entire future of the company on this one property. Cadillac Fairview dropped out of the auction. In the end, SMBH&Z Inc. won the bid for the ranch with an offer of \$337.4 million.<sup>45</sup>

The 1977 Cadillac Fairview annual report summarized the sentiments around the failed bid. “Had we been successful, it would have dramatically augmented the company’s future programs and performance. We were not successful because management elected to withdraw from an open-ended auction.” There are some managers of the company who believe that “this was the deal that got away”. However, other executives of CF and key stakeholders in the business community remained confident in Diamond’s decision. “It was a big deal,” explains Richard Thomson, “I remember Eph telling me that you have to be careful when you go far away [to invest]. Real estate is a business where you know it better when you live nearby. You understand the land, the people, and the politics. I think Eph made the right decision. It was too big. The company couldn’t risk positioning itself into hundreds of millions of more dollars in debt. Of course, looking back, it was a very profitable deal, but hindsight is 20/20.”

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<sup>42</sup> <http://irvine.org/about-us/history>, June 20, 2013.

<sup>43</sup> Stoffman, 2004, p 87.

<sup>44</sup> A real estate pro forma is a financial statement that communicates information such as site costs, expected operating income, etc. and projects these figures to determine profitability under differing circumstances.

<sup>45</sup> According to *dbusiness*, Detroit’s premier business journal, “In 1983, the Detroit team decided to sell. The sales price was a cool \$1 billion and the Taubman team recorded a tenfold profit in six years’ time.”

## U.S. Growth & Expansion

Despite its failure to secure the Irvine Ranch property, Cadillac Fairview continued to pursue business opportunities in the United States. The U.S. Shopping Centres group continued to build and expand, and the Corporate Development Group entered the South and the West of the U.S. Meanwhile, the Urban Development Group acquired and started construction on its first U.S. office building in Denver, Colorado, while the Residential Group expanded into Florida.

### Figure 5

**Cadillac Fairview's Real Estate Assets in the U.S. and Canada**  
(in hundreds of thousands of CAD dollars) – 1978 and 1980

	Rental Operations	Housing Operations	Land Operations	Total
<b>1978</b>				
Canada	\$855.7	\$84.8	\$217.7	<b>\$1,158.2</b>
U.S.	\$67.3	\$1.9	\$36.8	<b>\$106.1</b>
<b>1980</b>				
Canada	\$1,059.4	\$96.0	\$149.8	<b>\$1,305.2</b>
U.S.	\$390.0	\$284.5	\$22.2	<b>\$696.8</b>

By 1978, the annual report stated, “It is now company policy that growth in the U.S. is a normal part of our business operations.” Although Cadillac Fairview’s growth was explosive in the U.S. throughout this period, the company consistently approached the American market cautiously, taking the time to understand each location in great detail.

## The End of an Era

Since its inception, Cadillac Fairview had maintained impressive growth, first in Canada and later in the United States. By the end of fiscal 1979, CF had enjoyed five strong years of growth concentrated on industrial, office, mixed-use and shopping centre development. Throughout this period, residential assets remained fairly stable.

Meanwhile, Eph Diamond had put in five years as CEO, along with more than 30 years in the business. He began to experience exhaustion that led to health complications. As the 1970s drew to a close, Diamond began to think about his future. Sitting at his desk gazing out at the Toronto city skyline, he wondered whether it was time for him to step down and let someone else take the reins of the company.

## Postscript

Diamond made his decision. In order to spend more time with his family and improve his health, he retired as CEO from Cadillac Fairview in 1979. However, he remained involved with the company and continued to serve on the Board of Directors and the Executive Committee until 1987, when the company was sold for about \$2.6 billion to a private investment consortium made up of 39 investors, mostly American institutions. In 1996, Cadillac Fairview went up for sale. By 1999, the organization was a wholly owned subsidiary of the Ontario Teachers' Pension Plan. To this day, Cadillac Fairview is known to possess one of North America's finest portfolios of retail and office space.<sup>46</sup>

A review of the key people in Canada's real estate industry today — and the trades surrounding the industry — will reveal that many of those company founders got their start either at Cadillac or Cadillac Fairview. This is a result of the fact that these organizations trained employees and senior managers to develop strong expertise and good work habits. This training encouraged a high level of performance and spawned leaders who made the overall industry stronger, particularly in Ontario.

Ephraim Diamond's contributions to Cadillac Fairview and the Canadian business landscape are legendary. He was inducted into the Canadian Business Hall of Fame in 1988. In 1994 he was named an Officer of the Order of Canada. Although he died in 2008, his name and his legacy of integrity and fairness in the real estate industry continue to live on.

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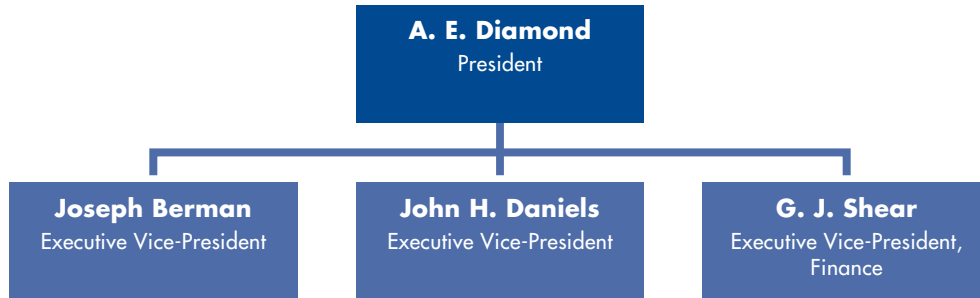
<sup>46</sup> In April 2013, Cadillac Fairview broke ground on the Deloitte Tower in Montreal, the city's first privately-owned and financed commercial office tower to be built in more than 20 years.

## Questions

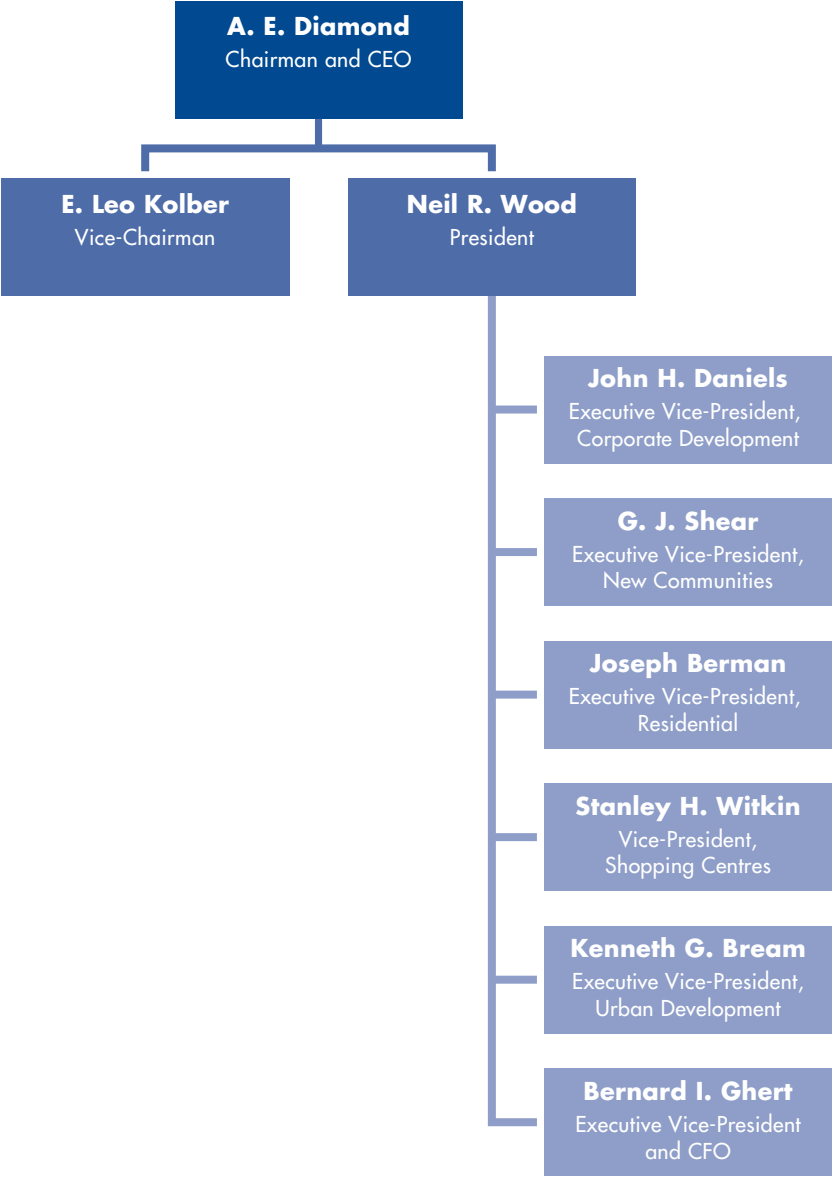
1. What were the circumstances that led to the beginning of a development industry in Canada in the postwar era?
2. What factors determined the success of the newly merged Cadillac Fairview? What was the company's value proposition?
3. Based on your reading of Porter's article titled, "From Competitive Advantage to Corporate Strategy", evaluate the decisions made by Cadillac and Fairview in the 1970s as they relate to the merger, organizational design, and United States growth.
4. What do you think of the Irvine Ranch decision? Do you agree or disagree with Diamond's decision to pull out of the bidding process? Would you have handled the situation differently? What lessons could CF's management have learned from this experience?
5. What do you think were the advantages and disadvantages of taking Cadillac public in 1968 and merging with Fairview in 1974? How else could the company have raised money? What would you have done?

# Appendix

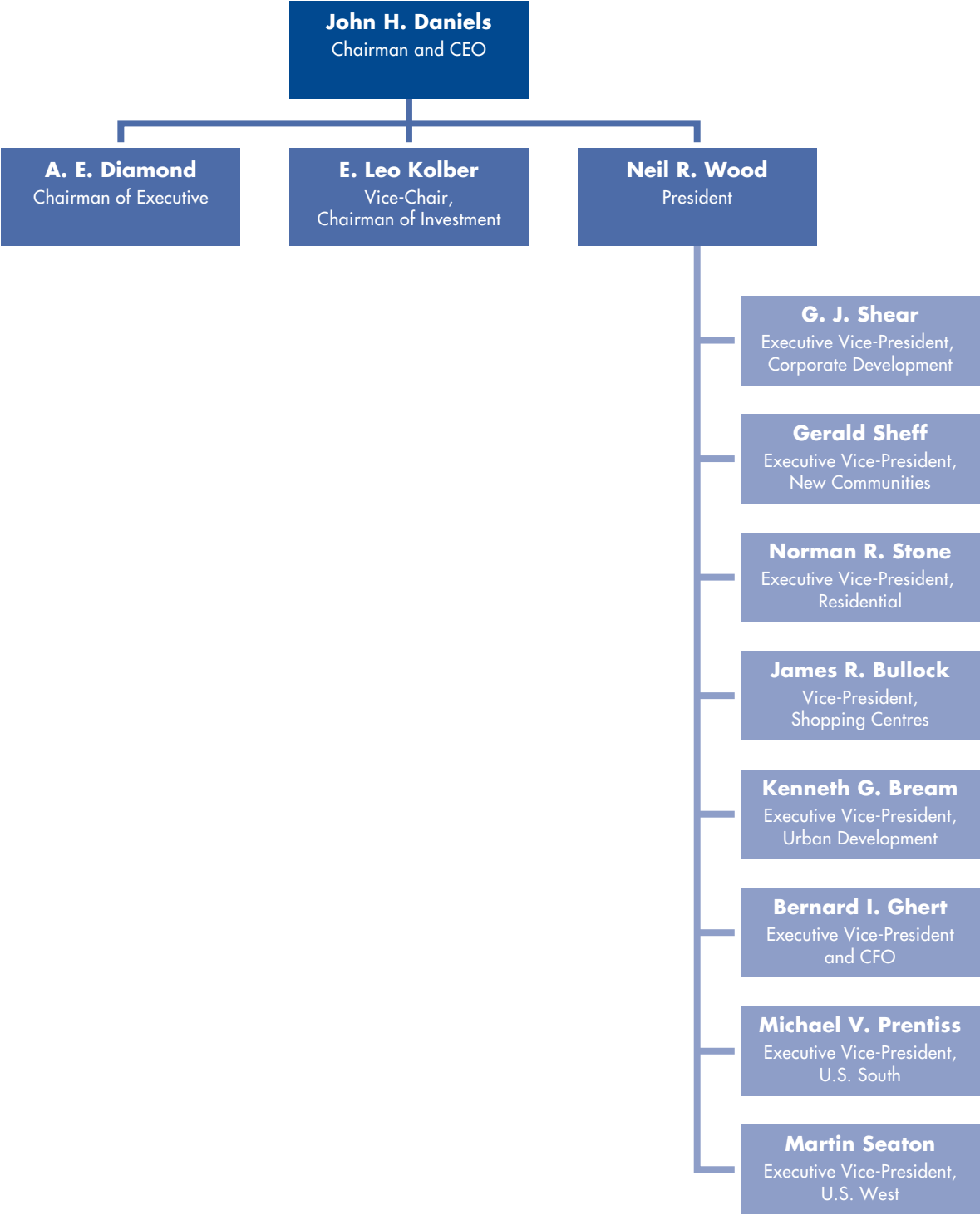
## **Exhibit 1: Management & Corporate Hierarchy, Cadillac Fairview Corporation Limited Officers – 1972**



**Exhibit 2: Management & Corporate Hierarchy, Cadillac Fairview Corporation Limited  
Officers – 1972**



**Exhibit 3: Management & Corporate Hierarchy, Cadillac Fairview Corporation Limited  
Officers – 1981**



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