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Centurion Apartment REIT

Doing it the
REIT Way

Great is Not
Good Enough

Sterling Karamar
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Doing it the REIT Way

The recently created Centurion Apartment REIT offers individual investors among other things, long-term growth and relief from stock market volatility

By John Tenpenny



The Centurion team (L to R): Daisy Grande, Susan Yang, Catherine Perry, Mariana Baciu, Adrian Wong, Greg Romundt, Myles Kranovich, Marjorie Hunter, Marcela Peana, Brian Wong, Petya Georgieva, Alice Wong



Centurion President and CEO Greg Romundt (left) and Operations Manager Adrian Wong.

Last summer Centurion Property Associates Inc. launched Centurion Apartment REIT, a private real estate investment trust focused on the acquisition, ownership and management of apartment properties in Canada. This REIT launch represented the culmination of over seven years of portfolio building which had seen Centurion grow to 23 properties in 14 cities and towns in Canada with 1,179 rental suites in a number of private funds. According to Centurion Property Associates President and CEO Greg Romundt, this REIT conversion represents the next natural stage of growth for the company. *Canadian Apartment Magazine* recently sat down with Romundt to discuss this latest venture and the Canadian REIT market in general.

Why a private and not a public structure?

One of the reasons people invest in real estate in the first place, is to diversify away from stocks. Having real estate packaged as a publicly traded stock brings back stock market risk, the very thing investors want to get away from in the first place. A private REIT gives investors the opportunity to invest in the real estate that they want, as if they were buying it themselves directly, but without the volatility of the stock market.

Why would an investor invest in a REIT as opposed to doing it themselves?

I believe there are six reasons for this.

1. **Diversification** Unless you are very wealthy, a REIT gives you diversification that you could never achieve on your own.
2. **Time** Managing apartments well is very time consuming. It is a real business that requires constant attention to a variety of disparate areas. Most investors don't have the time to focus on the business of running an apartment portfolio on the side. As well, having access to an acquisition pipeline is critical. For a non-professional investor, the apartments that they would have to the opportunity to buy are the ones that the professionals have already reviewed and rejected. A REIT investor doesn't need to accept that the properties that they are buying are the rejects of the professionals.
3. **Experience** To manage apartments well requires experience. Unless an investor decides that they want to make real estate investing a career, it's much better to have a professional, who will likely earn them more money with less risk, do it for them.

4. **Economies of Scale** As a single building owner you have limited opportunities to get good deals for operating your property. A REIT, with a large portfolio has the opportunity to negotiate for the services needed to run its portfolio that would never be available to the single property owner.
5. **Scalability and Liquidity** A REIT investor has the opportunity to add to their investment as funds are available to them, maybe as frequently as monthly, and to leave scaling issues to the REIT manager. Direct property owners need to deal with the fact that apartments tend to be large scale investments that require large amounts of capital to make the next acquisition possible. Further, if an investor requires liquidity, it is simple for a REIT investor to sell a few units, something a property owner can't do—it's all or nothing and this isn't the case with a REIT investor.
6. **Investment Options** Most Canadians have the vast majority of their savings in RRSPs. REITs give

them opportunity to invest in real estate via their RRSP that would otherwise not be possible. They can buy a REIT that owns apartments in their RRSP, but not an apartment building in their RRSP. It doesn't seem right, but that's the reality.

You only focus on Canada. Why is that?

Canada was one of the few places in the world that didn't blow up dramatically in 2008. I believe that as a country, we have a lot to offer. Our banks are solvent, we have the commodities that the world wants, we have a politically stable, fiscally responsible democracy, and low debt levels compared to other G20 nations. In short, we've got more of the good and less of the bad stuff going on in Canada that make Canadian investors prudent with their capital and foreign investors smart to consider Canada as a safe haven.

You only focus on Apartments. Why is that?

I've always been attracted to apartments because of their stability and low correlation to the economy. Also, I

believe that the apartment market is less dominated by large institutional investors than the commercial classes of real estate. In my view this means that competition is lower, and the opportunities are better, especially for those investors who focus on a niche and are value oriented.

What is your outlook for the next few years for the apartment market?

I believe that apartments are a basic needs industry, with lesser dependence on the economy than most other investments, making for a lower volatility of earnings. The basic need for housing just doesn't go away because the economy may not be doing well. Apartments provide a good cash flow return and the potential for modest long term capital growth. Add in the fact that cash distributions are tax efficient because we benefit from the ability to reduce taxable income by deducting depreciation (capital cost allowance) and there are few investments that can provide what apartments can, particularly given the conservative mindset of many investors right now. As more money exits the



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income trust market, and savers see that they can't wait out this low interest rate environment, they will turn increasingly to income generating real estate and particularly apartments. I'm resolute in my belief that apartment prices will be higher and potentially much higher a few years down the road.

Your background is very different than a lot of apartment market investors. How did you come to be attracted to apartments?

Throughout my career of managing portfolios, there were four things that drew me to apartments.

1. As a former trader, I recognized that a single trade, even a great trade that took months or years to pay off only really paid you once, then you had to find another opportunity. Finding a good apartment building has the potential to pay you for your entire life.
2. As an investor in traditional stocks and bonds, there is nothing you can do to make your investment go up in value. You are stuck with what the market chooses to give you and it is completely random. It's nearly impossible to beat

the stock market and a waste of time and effort, in my opinion to even try. Real estate on the other hand, gives you the opportunity to create value all of the time. There's less competition and you don't need to rely on the market going up to make money. I like the idea that I can influence the returns that I get and I don't need to speculate on the market going up to make money.

3. The stock market is a casino, where even the professionals don't seem to do very well—for their clients at least. Apartments aren't a sexy or exciting business but they tend to make money consistently without the stomach churning volatility of the stock market.
4. I've always believed that one of the primary reasons that investors fail as investors is because the volatility of the market plays havoc with our emotions. How many investors have consistently sold at the top and bought at the bottom? Very few professionals can beat the market, so how can a non-professional expect to do so? Because of their consistent returns, apartments

help investors avoid the emotional up and downs caused by the market. It is often said that it is time in the market not timing the market that determines ones long term success. Holding apartments, because of the way they provide returns, gives investors the opportunity to stick to a winning strategy over the long term.

You have recently converted from running total return funds to a REIT. Why?

Prior to the conversion, most of our clients were institutional investors that were interested in the opportunities that came from renovating and reposition apartment properties. As I mentioned previously, I believe a number of game changing things have happened, particularly for retail investors. I believe that the timing was right to create an investment vehicle that met the needs of individual investors searching for cash flow, tax efficiency, stability, long-term growth and diversification away from the stock market. Centurion Apartment REIT is our answer to these core needs. **CAM**

Make informed decisions SIGN UP TODAY! **Get all FOUR Today!** **BEST DEAL!**

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