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Centurion
Apartment REIT
Doing it REIT

To build or
renovate?

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CENTURION APARTMENT REIT

The REIT way to serve customers

By Scott Anderson

Last year may have been a record year for Centurion Apartment REIT, still the Toronto-based company sees nothing but blue skies ahead again for its multi-residential business.



"I see a pretty positive picture for apartment investment in Canada. I am pretty optimistic," said Greg Romundt, president and chief executive at Centurion. "I thought 2012 was a very good year for the apartment industry and I think 2013 could be just as interesting."

The year heated up for Centurion as the company found itself swept along in a blockbuster deal that opened the acquisition flood gates for a number of companies. This followed the multibillion-dollar privatization of TransGlobe Apartment REIT in the spring which saw the big real estate investment trust bought by Starlight Investments and subsequently privatized.

This massive deal led to a number of sub-transactions involving some of the major players in Canada including Centurion which acquired a number of units as a result of the deal.

"We picked up a few that were initially part of that whole TransGlobe transaction. It was after the fact and after the dust had settled that we were provided with an opportunity to pick up some properties," said Wayne Tuck, Centurion's vice-president of operations and chief operating officer.

"I doubt anybody anticipates seeing that large a transaction come forward again, but I know that when

we look at the number of current deals - I think we are evaluating between 20 to 30 deals at any given time - we still anticipate that there are opportunities for growth."

Although both Romundt and Tuck do not anticipate another blockbuster deal of that magnitude to bulk up its portfolio again in 2013, they still see the company and the industry benefitting from some key economic factors.

"For the next couple of years interest rates are going to continue to remain low so that it is still very attractive from a buyer's perspective. The spreads are still attractive and it makes sense to buy," said Romundt. "We are at a unique point in multi-residential in that there is balance in the market right now."

Romundt notes that money has been flowing out of the stock market for years in search of a safe haven. This is partly due to the lack of confidence in the equity markets which has suffered multiple crashes over the past decade. But it is also due to a changing demographic that has seen the population age and the baby boomers retire. This in turn has prompted them to seek safer parking places for their cash.

"I believe there is a lot of capital that will continue to flow into lower risk-type assets and apartments are the most conservative in the real estate market. It will



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continue to attract attention and the slowness of the economy will probably mean that the vacancy rates will continue to remain low,” said Romundt. “Because the economies are slow, the interest rates will continue to remain low and because of the lack of investment alternatives demand for investment product will continue to remain high.”

The REIT way to go

Centurion Apartment REIT is an investment fund that allows institutional investors and individuals to invest in a diversified portfolio of rental apartments. The company boasts a portfolio of properties worth more than \$425 million, comprising some 4,200 rental units in 40 separate apartment properties in 17 Canadian cities.

But what sets it apart from the other Canadian REITs is that it is the only private all-apartment REIT in the country. This enables it to avoid the fluctuations of the skittish equity markets, providing a certain appeal to the risk-averse investor.

“We are trying to give people the opportunity to invest in the apartment asset class without having to make stock market allocation part of

their portfolio. We are fulfilling a very specific need for people who want to be hands off owners of apartment real estate and not have to be involved in the stock market,” he said.

“We are servicing a market that is slightly under-served and if we were to become public, quite frankly there are a lot of great quality public companies out there, we would become one of many, but we can be one of a few in the private place and can operate very happily there.”

Still Romundt bristles at the argument that a private REIT does not see the same investment scrutiny as its public rivals.

“Ultimately your biggest risk is who runs it and that is the same whether it is public or private. We have established a good management team. We have developed a reputation for delivering on what we have said and I think we have a high ethical standard built into our philosophy and on our delivery,” he said.

And for those that have opted for the safer route of the private REIT they have been rewarded handsomely. The REIT boasts a one-year return of 19 percent and an average rate of return of 12.6 percent since inception.

“It has been a very good run but I don’t believe that we will continue to maintain those rates of return. There are a lot of things that went into that and certainly one of them was cap rate compression which has made a very large impact on those returns,” he said.

Centurion’s target return is in the 7 percent to 8 percent cash flow range with another 2 percent to 5 percent of capital growth. However, it has been very strong in the past few years due to that cap rate compression.

“A large proportion of our portfolio has been turn around stuff so there has been some decent capital growth that has resulted from property repositioning as well as the cap rate compression. I think that we will continue to find those opportunities which will allow us to beat our minimum returns but I certainly can’t say whether we will get any further cap rate compression.”

Disciplined approach

Centurion has maintained this rate of return for investors by sticking to a disciplined strategy of investing in properties that appeal to the low- to middle-income renters in select markets across



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the country. It not only looks for multi-residential properties, but has ventured out over the past few years to include the lucrative and largely untapped student housing sector.

“We wanted to be a consolidator of the middle-market space of apartment buildings in these primary and secondary locations. We thought there was a gap in the market between the quality that was available for that middle-income resident and what they were looking for. There was an opportunity to provide a little bit better than what they were getting,” said Romundt.

“We saw an opportunity to deliver to residents a value proposition which is better than average for the space. It is not necessarily going to be the same as a brand new glass and steel apartment building. We will serve a demographic which is really marketing towards the lower-to middle income renter.”

The company currently operates in only two provinces – Ontario and Quebec – but always has an eye on other areas of the

country if it is the right fit.

“We are looking to expand to other provinces. Traditionally we have been very active in our own backyard because there have been so many opportunities here. We have just focused on our opportunities,” said Romundt.

“We would go anywhere, but we are price sensitive. We are very financially driven. We do have to meet return objectives to our investors and if we don’t think that we can make them and that an acquisition would be potentially dilutive we just don’t get involved. In certain markets of this country it is very difficult to make accretive acquisitions so we will just have to be patient.”

Back to school

Student housing is one area that Centurion has been studying lately and it likes the investment that it has made in this ongoing lesson.

Centurion’s flagship student housing complex is in London, Ontario which it took over in February 2012. This 634-unit student residence

portfolio, contained on two separate sites at 75 Ann Street and 1 Beaufort Street, is geared towards the students of Western University. Another townhouse complex is also nearby.

When Centurion acquired the property at 75 Ann it was in a sorry state and clearly neglected by the previous owners. One story has the residents going for three days without hot water.

“The last owners really delivered a poor experience and that showed up in their financial results,” Romundt said. “The quality that they were delivering represented their ownership philosophy and I think that the quality and the direction that we have taken in the building represents our ownership philosophy and it is two very different experiences.”

Centurion has injected significant capital into the suites and the upgrades include granite countertops, kitchens and bathrooms. New bedroom layouts were also done in the suites. The hallways and common areas have also been modernized.

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The main Ann Street location contains premium amenities including fitness and weight training rooms, a theatre, a games room, a lounge, a study room, CCTV coverage, underground parking, and onsite staff.

"When you walk into the building, you would think it is a nice condo building, but it is totally geared towards the student experience. I really think the previous owners let it become tired and weren't investing in the building," said Romundt.

"We have put in a very significant amount of capital. When we are done it will be about \$2.5 million if not more in the span of a year in suite, common area and amenity upgrades. Without a question it will be the place to live in London."

Customer service

Supplying a building in the best location may be a key ingredient to the success of Centurion but management also prides itself on its level of customer service which it says separates it from its peers.

"We recognize that it is a pretty simple business. We are renting apartments to people who are value conscious and if you look at our core values,

one that resonates with me is integrity. We want to deliver good value to our residents and at the end of the day provide a safe, clean, pleasant home for them," said Tuck.

Tuck joined the company in February 2012 and the veteran real estate executive immediately tackled the job of establishing a platform to spotlight its customer service philosophy and position it for growth. The company now has two websites geared to its residents and its REIT investors.

"I joined Centurion with a mandate to enhance this platform and a big part of that has been about getting our vision, mission and values down to the field so that it resonates with those folks who are in front of our residents, day in and day out. We have also developed systems and processes that support our customer-centric approach," he said.

A key feature of the resident-focused Centurion Property Associates website is the tabs enabling both prospective and present residents to complete numerous functions with a few key strokes. From finding apartments and making rental inquiries to paying the rent and requesting

maintenance, all of these time saving features are offered on the website.

"It is constantly evolving for us. We recognize that there are opportunities for us to do more with it. Our focus is on driving traffic to the website and ultimately our Call Centre where we are able to convert a significantly higher rate of leads to appointments. We will continue to execute through the digital space," said Tuck. "It allows us to reduce the cost of acquisition for new customers, and provide convenience for our time-sensitive residents who want their queries and concerns escalated as quickly as possible."

And driving home the message that a company is only as good as its employees is the "Super-stars" feature which showcases the outstanding contributions of a different resident-focused employee every quarter.

"It was important for me to get this Super-stars piece up there because it tells the story of the people that work for us. It allows our prospective customers and residents to identify at the local level with who we are as a company," said Tuck.



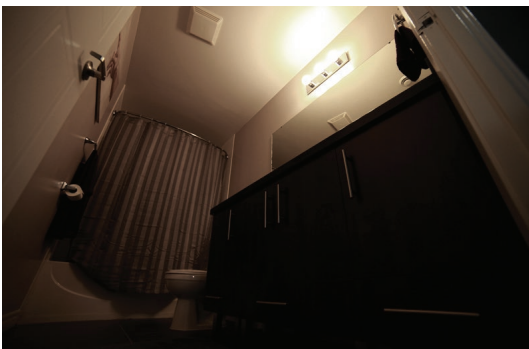
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"It speaks to where these people come from and how they ended up working for Centurion. The choice they make in getting there means that in some way they identify with our values and our brand. Our customers can gain an understanding of what we are all about and the kind of people

that we employ who will ultimately deliver services to them on a daily basis."

Practising what they preach

The company put its customer care philosophy into practice recently when it

acquired 6 Grandstand Place in Toronto's Thorncliffe Park community.

When Centurion bought it for almost \$6 million in December 2011 it was "significantly neglected." It subsequently began injecting a considerable amount of money into the six-storey



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building's upkeep including upgrades to the 60 suites, new exterior cladding, balconies, an elevator modification, safety systems, parking lots and exterior landscaping. The entire facelift is expected to be completed later this year.

"When it is all done it will be a brand new building," said Tuck.

Despite the extensive renovation plans there and at other nearby acquisitions in Thorncliffe, residents still had long-festering grievances and frustrations which the company inherited from the previous management. So Centurion executives met face-to-face with residents during a gathering in one of the buildings. This, Tuck said, went a long way to improving resident-management relations.

"It's extremely fulfilling and satisfying for me personally to know that I have been able to help someone and improve the value proposition for them," said Tuck. "But it's not about me, it's about our brand. It's about our organization. It's about what we are trying to do here."

Building new investments

With a growing concern that the stock of affordable rental units is declining across the country, Centurion is looking to increase the supply with newly built units, something that has not been done regularly over the past few decades.

"There is a real opportunity in new construction buildings and we are very actively looking for new opportunities for us to fund the development and acquisition of new apartment stocks in Canada," said Romundt.

"You don't see this too often, but I think that it is slowly changing. And I think that it is going to change more in the future. The stock of available housing is continuing to decline. There is a space for stuff that is between \$1,200 and \$1,500. There is an opportunity and we are exploring them very actively."

The company has created an in-house program and hired a director of mortgage investments to pursue these new build opportunities.

"We are going to find developers who want to build this stuff and then help provide them with the capital to get them to the finish line."

Growing, not changing

With its portfolio of multi-residential and student housing properties growing and plans to enter into the new build market, there is a danger that the company's core values and beliefs could be neglected. But this will not be the case, Tuck maintains.

While 2012 may have been the year that the company developed and instilled its core values, he says 2013 will be more focused on ensuring that all employees understand "the expectations for service and the related standards, which we anticipate to deliver across the entire portfolio."

"We feel in today's market we can differentiate based on the service experience. Things like common courtesy and the understanding that we are there to serve are quite uncommon today. We obviously want to move away from that traditionally tenuous "landlord - tenant" relationship and towards a "customer-service provider" relationship where people have expectations for value that are fulfilled by the product and service we deliver."



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