

Land of opportunity

The pandemic has only accelerated the trend toward rentals in suburban areas. Centurion Asset Management's **Greg Romundt** tells *WP* why that's likely to continue in 2021 and beyond

THE COVID-19 pandemic has altered how we live and work in many ways. One of the most significant trends has been a movement away from urban cores and into the suburbs – something that was already happening before the pandemic but has accelerated since, according to Centurion Asset Management. Now, as more people realize the benefits of suburban areas, Centurion sees this trend sticking around even after the world gets back to normal.

“There is a misperception in the press that what is happening in Toronto and Vancouver equals what is happening in the entire country, which is just not true,” says Centurion president and CEO Greg Romundt. “Everyone assumes rental prices everywhere are soft, but they are not. Toronto and Vancouver – downtown cores, very dense cities – are soft, that is true, but the number of people in the country is not declining. So where are they going? They are moving to the suburbs, and we see that in the rental trends.”

Romundt says there are many reasons for this migration to the suburbs, but it's mostly driven by a desire to save money. As a result, many suburban parts of the country

are seeing a rapid rise in population and rentals because people want to go there and there aren't enough rental units to meet the demand. Romundt points to Kelowna and Victoria in BC, both areas where Centurion has properties.

“We call it an exurban strategy to Vancouver,” he says. “We bought those properties pre-pandemic, because we thought people would go there and saw this playing out in other parts of the country. You can be in commuting distance, and it will cost you half.”

The shift to remote work has accelerated the trend. People are realizing they don't need to be in urban centres and can get more space for less money in the suburbs.

“We are still seeing strong lease-up in those communities,” Romundt says. “There are some who say when the pandemic ends, this all goes back to normal, but I don't ascribe to that view. Some of those people moving to the suburbs will find it is pretty good, and employees will expect to be offered work-from-home days as a benefit. Even if it is not every day, it will become a more lasting trend, allowing people to live in the suburbs.”

This deurbanization is occurring across



Canada, Romundt says – people are going from big cities to medium and smaller ones all around the country, and he doesn't foresee this ending anytime soon.

“When you think about the number of rental units being built in downtown Toronto or Vancouver, there aren't many of them,” he says. “It is far more profitable to build and sell condos. If a builder goes to the suburbs, they can buy a two-acre piece of land and put up a 100-unit apartment building. They can use less expensive technology, wood or steel versus concrete, can do surface parking, and elevator runs are less expensive in a four- or six-storey building. So it is much more affordable to build them there.”

That affordability for builders can quickly turn into value and returns for asset managers and investors who get involved with these types of properties.



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“We thought that the properties in the suburbs and exurbs have been better value on a dollar-per-square-foot, yield-type basis,” Romundt says. “They have certainly proved their value – not exactly in the way we expected during the pandemic, but they are where people want to go and be. If you are interested in the new-apartment business, which is what we are, that is primarily – not exclusively – a secondary markets phenomenon, or in more suburban markets. It is very

expensive, risky and time-consuming to build apartments on the margins available in cities versus selling those buildings as condos. That is why shops like ours are doing plenty of new-construction development with partners almost all in the suburbs.”

The pandemic aside, a few other trends have led Romundt to remain bullish on the suburban apartment space. The first is the fact that much of the apartment stock in Canada is quite old, meaning there will be a

need for more new developments.

“I think it is going to keep growing,” he says. “Our view is that in the next 10 years, as a country, we will build as many apartments as we have in the last two generations. Most apartments in Canada were built in the 1960s and ’70s. Right now, we just don’t have the ability for everyone to own a house. The population continues to increase, and it won’t be possible for all to own a house, and not everyone wants to own a condo.”

On that note, Romundt sees a growing demographic that’s likely to favour rentals. “I think as we get more people retiring, they will sell their house or condo and move into a rental,” he says. “They will want something nice, new and close to the things they like, in areas they want to live. There will be continued demand for high-quality rentals in places people want to live. I think there is quite a bit of runway left – at least a decade-worth strong run.”

The other main reason Romundt believes suburban apartments will continue to offer opportunity is Canada’s projected population growth. He notes that the government has established a target of 400,000 new residents per year, and he expects immigration to get back on track once the borders reopen.

“Most players in this industry are looking at this and see why apartment values are going up, not down,” he says. “Most building owners are looking straight through [the pandemic]. Even if they own in an area where rents are soft today, this will come back when the borders open, students return and we are bringing 400,000 people in per year. We are not building enough housing for that many people.

“Pre-pandemic, the market was super tight almost everywhere, so I see that when the pandemic ends or at least the borders reopen, the demand for rental units will increase quite a bit. Vacancies will come down, rents will go up, and that is why apartment owners are looking straight through to an active market.” **WF**