

Q&A Part 2 with Centurion President and CEO Greg Romundt



Q: Acquisitions have been a big theme for Centurion this year. What has made the climate so attractive for acquiring properties?

A: *2019 is shaping up to be Centurion's biggest year yet in terms of acquisitions. A few key factors have driven our acquisitions. First, a number of these recent transactions have been in our development pipeline for the past few years through joint ventures in Centurion Real Estate Opportunities Trust (REOT). We are very pleased at the success of these strategic partnerships to produce the acquisition pipeline for Centurion Apartment Real Estate Investment Trust (REIT). Much of these products consist of newly built, attractively valued rental properties.*

There has also been a good flow of other new properties to the market, as projects that started over the last number of years are now being completed. We have been actively exploring and identifying new rental buildings that other developers have brought to market.

Q: Western Canada seems to be a focus of your acquisitions. Can you speak a little about your strategy there?

A: *First, when we talk of Western Canada, we have to distinguish between local markets, as each is completely different. For instance, we have recently acquired properties in Winnipeg, Victoria, and Edmonton, but each of these cities is unique and has its own local economic drivers. Edmonton's economy, for instance, is rebounding and is tied to the resource sector. It's a different story in Vancouver, where rents are much higher and are being driven by in-bound migration.*

That being said, our footprint in Western Canada is indeed growing. But wherever we choose to acquire properties, our focus is always on finding the best relative value. And it just so happens that the best value in the rental market today is being found outside of the big urban centres of Montreal, Toronto, and Vancouver – the "MTVs" – where demand for housing is skyrocketing, but availability is extremely low.

We believe the growth of our biggest cities, like Toronto and Vancouver, is making them unaffordable for people to live in – whether they are renting or buying. Ongoing immigration, which tends to concentrate in the big cities, will only exacerbate this trend.

So what does this mean in terms of opportunities for Centurion? For one, people are moving to the suburbs and exurbs to find places to live that they can afford. They may not be able to rent in Toronto, but they can afford to do so in Guelph or Cambridge, Ontario. People may not be able to afford Vancouver, but they can find a place to live at a reasonable cost in Surrey, Richmond, or Victoria. The building up of transportation links in British Columbia, such as light rail transit, fits nicely with our strategy, as it allows people who have moved away from Vancouver to easily commute there as needed.

So our strategy is to pursue opportunities in those areas where Centurion can buy reasonably priced properties that represent great relative value compared to the core urban markets of Toronto and Vancouver. Indeed, we are often able to purchase properties at half the cost per square foot in the suburbs and exurbs.

In contrast, the economics of building new rental properties in the big urban centres is a real challenge, as it's much more expensive to buy there and you're competing against condos for the same land.

Q: The U.S. is another top destination for your acquisitions. Where in the U.S. are you finding the best value?

A: *The U.S. is such a huge market, so instead of trying to navigate it ourselves, we have formed successful partnerships to help us identify attractive opportunities.*

A lot of the opportunities we're seeing today are in the U.S. Midwest. Interestingly, many technology companies and start-ups are moving to the Midwest, as Silicone Valley is becoming too expensive for tech startups to find office space and for tech workers to live in. And the area is home to a young and educated workforce.

So our strategy there is an urban strategy: target younger professionals who are starting their first or second jobs and who want to live in urban centres. To this end, we are identifying and purchasing highly amenitized rental buildings at great value that cater to the young professional demographic. The unit sizes in these buildings may be smaller, but they are places where people "sleep in their units, but live in the buildings."

Another strategy we are employing in the United States is to target the southern states. These low-tax, employer-friendly states are seeing strong employment growth and in-bound migration, which are combining to create a need for rental housing. It is also inexpensive to build properties in the southern U.S., compared to say, Canada. The approvals process is quicker there, it's much easier to rezone properties and the weather is a big plus. Weather in Canada can play havoc with construction schedules, and there are the freeze-thaw cycles to contend with in winter and spring, all of which adds to construction costs. In the end, the fact that you can build properties so much quicker in the southern U.S. leads to a better return on your investment. And the strong demand for rental units only adds to the attractiveness of our U.S. properties.

Q: Canadians seem tied to the notion of home ownership, while in the U.S. renting is seen as a viable alternative. Can you speak about these differences?

A: *Canadians do seem tied to the idea of ownership, whether that's a condo or a house. I think close to 70% of Canadians are homeowners. For various reasons, the rental apartment industry in the U.S. is better developed than here. Partly that touches on factors described earlier – you can build new apartments quicker in the U.S. because of more relaxed zoning laws and approvals processes. Plus, the weather helps when you're in the southern states. Strong population growth and in-bound migration to where the employment growth is occurring is another socio-economic factor at play.*

Another key factor is that after the financial crisis of 2008, there was a reduced propensity to own homes in the U.S., as lending institutions became much more conservative and people were scared of incurring additional debt. More people turned to renting, and this trend has continued to this day. Our financial system and housing sector held up much better after the financial crisis than it did in the States, and you can see this in the robust desire for home ownership here.

Q: So will the robust U.S. rental market continue to be a major tailwind for Centurion?

A: *The U.S. rental market is so big, and it's full of opportunities, so yes it will continue to be a tailwind. But unlike in Toronto or Vancouver, where sub-one percent vacancy rates are pushing rental growth rates into the double digits, the growth rates in our U.S. properties will be around the rate of inflation, which is in line for our income properties there. For us at Centurion, it always comes down to finding properties that represent great relative value and that can produce stable income streams for our unitholders.*