

Why 2021 Will See Record Investment Activity in the Multifamily Business

To paraphrase one of the greatest captains in the Star Trek universe:

Scotty to Captain Kirk: Captain, inertial dampeners are offline!

Captain Kirk: All crew, brace for impact!

I have said since last year that I expected that once we got past the initial period of Covid uncertainty that transaction volumes in the multifamily space would increase dramatically. I had posited that developers of new apartments, the kind of product we are today most excited about, would come through Covid and be more eager to sell their apartments. I believed that this would be motivated because a change in the perception of the ease of operating apartments. Apartments are a resilient and forgiving investment, more so than any other investment I can think of. If you had a bad manager, or you under rented your apartment, or let vacancies rise too much, you would get a new chance, every month after that to fix it. Low unit turnover rates, low vacancy rates, and low supply of alternative choices for tenants meant that if you were lazy as an owner, you still did ok. Not as well as you could of maybe, but still ok. If you executed well, then you did far better. The operational challenges of Covid, for many old school owners and inexperienced developers took them by surprise. First, people were scared to go and see apartments, and you couldn't tour prospects through occupied units like in the old days because sitting residents were terrified of Covid being brought into their homes. Further, like no other time in recent memory, when people started to move, they were leaving cities for the suburbs en masse. This meant that technology, logistics and a sophisticated leasing infrastructure had an outsized impact on competitive positioning, collections, leasing activity and vacancies. All of a sudden, what seemed so easy before, was more challenging. Combine this with the tendency of developers to use copious amounts of leverage, when banks became very conservative in lending to inexperienced or highly leveraged clients, I believed would motivate many developers of apartments to sell rather than keep their properties for the long term (inertia). I was right, and we've been more active since the fall of 2020 than any time in our history. I believe that this will accelerate even more in the months ahead, because Covid has changed more than the minds of just developers.

Covid Shattered Life Inertia

Life Inertia is the tendency to do what you did yesterday, to continue on your life path because it is comfortable. In the absence of severe disruption, it is easy to just wake up and do what you know, because there is no pressure to change. Covid shattered the Life Inertia of our society in a number of fundamental ways. Prior to Covid it, large scale work from home (WFH) policies were extremely rare and were considered unworkable and inefficient. Not anymore. Companies and employees have found out that they can WFH. Is it perfect? No, but some hybrid of WFH/flex work is here to stay. This has enabled those that live in tiny apartments in dense urban areas to relocate to the more open suburban areas, fueling a boom in housing. It was previously the easy choice to stay where your work was. Covid upended that, because now it was very inconvenient and unpleasant to be trapped with no place to go, and nothing

to do, and to be paying handsomely for the privilege. For many, WFH really meant that staying was the uncomfortable choice, and it became easy to change, i.e., Covid smashed the inertia of city dwellers. Many made the choice to move.

How did this change things for apartment owners? Apartments, as I mentioned previously, became a much more active business, and landlords had to work harder than before to keep their employees and communities safe, work with residents facing cash flow disruptions and continuing to lease in the face of Covid. Covid did more than that though. Many apartment owners, like almost everyone else, in the face of Covid, had reason to reexamine their lives. Fear of death, like in a pandemic, can do that. Many owners in the apartment space are older and it is generally these retiring families that are the source of properties for sale. It was easy before, if you had been thinking of selling, to put off that decision until next year, or the year after that. Covid shattered the inertia of many of these owners. Choosing to continue became an active and no longer the passive decision it had been for many years. A number of professional advisors I know have reported seeing this in their business clients. Even if you weren't in a hard hit business like restaurants or retail, the pandemic forced many to reexamine their lives, risk appetite, business and personal priorities and how and where they want to spend their time. Many of those that can retire or leave the country for a less locked down focused place are choosing to do so. I'm hearing this more and more. The impact of the disruption to Life Inertia will be profound for societies, businesses, people and governments. Some of these changes will be positive and others negative.

Fortunately for us, this is bringing a large flow of opportunities to the market and Centurion is well placed to execute on this. Centurion is the second largest apartment focused REIT in Canada based on equity market capitalization, is highly liquid, can access fresh equity capital quickly to seize on opportunities, has a reputation for closing and is a sought out buyer and partner and has scaled its platform to onboard acquisitions efficiently. I have said for years that Canada has a chronic shortage of apartments and that we will, as a country build more apartments in the next decade than we have in two generations and that would give Centurion many opportunities. I still believe that to be true, but now Covid is shaking out even more opportunities for growth.

We are now out raising capital because we have a lot of opportunities in the works and many more on the way. Some of the opportunities are so large and coming so fast that our plate is full, and we are turning them away. The next few years are going to be very exciting for Centurion.