

[Centurion]



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*Greg Romundt, President, with Wayne Tuck,
Vice President Operations and Chief Operating Officer*

Scale - The Path to Growth

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APARTMENT REIT

Greg Romundt founded Centurion Property Associates Inc. in 2003 when he began diversifying his international real estate portfolio to include investments in apartment buildings in Canada. As his portfolio of rental properties grew, the company began accepting investments from friends and family. In 2006, Greg launched the Centurion Apartment Properties Limited Partnership, which started with his portfolio of rental properties.

“The Fund’s opportunities truly took off in 2008 during the serious decline in the stock market, as the government also closed other investment windows,” said Greg Romundt, President, Centurion Apartment REIT. “The rental market was a very good investment. People wanted something that was relatively safe, and investing in rental properties offered tax efficiencies and reasonable yields.”

other likeminded investors. They have been able to create an attractive investment opportunity for people who want to be involved in the rental property industry but who do not have the time or resources to properly manage their own properties.

“Centurion Apartment REIT allows investors to get the benefit of earning rental income without having to chase that rental income,” said Greg. “Many individual investors in rental property often underestimate what is required to run this type of business. We are responsible for taking care of the property, doing maintenance, managing staff, collecting rents, etc., while our investors get the benefit of hassle-free cash flow.”

On a number of different levels, Centurion has been able to create a strong brand that has contributed to the strength of the investment. On

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After doing the necessary research on the structure of real estate investment trusts (REITs), and completing the requisite documentation, Greg launched Centurion Apartment REIT in September 2009. He then rolled all the rental properties in the Centurion Apartment Properties LP into the REIT.

In just over three years, the Centurion Apartment REIT has added more than 3,000 units under management. The portfolio consists of about 4,200 rental units in more than 40 individual apartment properties in 17 communities. The REIT now has investments in properties worth more than \$425 million.

Creating an attractive investment

The Centurion Apartment REIT has grown by developing a strong network of investment dealers and making direct deals with buyer brokers. Greg and his management team are proponents of managing and investing in rental properties and apartment buildings, and have been able to attract

the resident side, Centurion has proven to be a responsible landlord, as it consistently strives to improve its properties while also offering fair rental prices to its residents. The company has demonstrated to brokers and property sellers that it has earned its reputation for following through on deals and always closing on its offers. Centurion Apartment REIT has also developed a reputation among investors by providing conservative yet consistent returns on investments.

Setting the foundation for an investment strategy

Management has focused on finding opportunistic niches to help grow Centurion Apartment REIT. Instead of attempting to compete with other property investors, it started purchasing properties in secondary and tertiary markets (“secondary markets” refers to areas outside large cities, while “tertiary markets” refers to small towns). The REIT has also focused on purchasing smaller and mid-sized rental properties (i.e., larger than “ma and pa” buildings yet not institutional-grade properties).

With the growing success of Centurion Apartment REIT, it is moving more into purchasing rental properties in primary and secondary markets. However, management remains consistent in the criteria it uses to acquire its investment properties. It focuses on areas where there is evidence of positive demographic trends (i.e., population growth is stable or increasing). Centurion does not buy rental properties where there is population exodus, or in neighbourhoods that are demonstrating decline, even though these types of properties might offer better short-term value.

"We're interested in purchasing rental properties in areas that are improving," said Greg. "We want to add value to the properties over the medium to long term, and advance the value of the asset for our investors as well as our residents."

Over the last year and a half, Centurion Apartment REIT has expanded its holdings to include student housing, which it considers to a growing and valuable niche in rental properties. Management looks for purpose-built student housing properties that are located close to universities, and that also meet equivalent quality standards as its other rental properties. In February 2012, Centurion purchased three student housing properties, which provide rental housing for students attending the University of Western Ontario. The REIT also employs third-party providers to manage its student housing residences, relying on their expertise to provide a high level of service.

Centurion Apartment REIT is also being expanded to use its balance sheet strength to invest in mortgages. It is beginning to provide financing to developers of rental properties that meet particular criteria. Centurion has found that there is greater demand for purpose-built rentals in certain markets, and is working on the



Right: Greg Romundt, President, with Wayne Tuck, Vice President Operations and Chief Operating Officer

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premise that more rental product would be built if developers had greater access to capital. Management believes that it has an opportunity to get involved in new investment opportunities at the development stage.

“We are currently doing our due diligence on several development projects to determine where our investment capital would best be spent,” said Greg. “We’re looking to work with developers who have the experience, motivation and ability to develop purpose-built rental properties.”

Developing a scalable platform to anticipate growth

Management developed a scalable operating platform and service model to prepare for the future growth of Centurion Apartment REIT. This involved hiring specialists in key positions to provide specific experience and support, including a Vice President of Operations, Chief Financial Officer, Director of Finance, Director of Mortgage Investments, Director of Technical Services and Controller. With the team in place, management was able to enhance the existing platform with attention to process improvement, operating standards, standard job descriptions and job aids, which were supported by Centurion’s core values.

“Creating a scalable platform has made it easier to grow because it enables Centurion to have the systems configured and the people in place before we onboard properties,” said Wayne Tuck, Vice President Operations and Chief Operating Officer, Centurion Property Associates. “Beyond the typical acquisition schedule for operations, we implement a comprehensive training program that defines

requirements and frequencies for specific tasks, with standards tied to customer expectations.”

The foundation of the operating platform is the belief that it is critical to effectively manage the real estate investment. This belief is supported by a set of core values known as RISE (Respect, Integrity, Simplicity, Excellence). These core values provide answers to questions in all situations. In other words, when an employee has a question about what needs to be done to solve a client problem, he or she can turn to the core values. There is no need to focus on how or why something must be done when the ultimate focus is to deliver exceptional service.

Strong corporate values are essential to Centurion’s growth and success, and these values resonate with both staff and residents. The Super-Stars program is one example of how management lives what it preaches, as it highlights the performance of site-level employees. The program recognizes individuals who consistently exemplify Centurion’s core values in face to face interaction with residents. It tells their stories, instilling pride in those employees, and demonstrates to residents that the people who provide essential services are putting forward exemplary effort consistent with the brand promise.

Management and staff live Centurion’s corporate values, and resident relations are an important element of those values. Resident relations involves building trust, which must be earned over time. This includes providing excellence in product and service quality, delivering good first



Centurion Apartment REIT

Centurion Apartment REIT is an unincorporated open-end investment trust with the objectives of:

- providing unitholders with stable and growing cash distributions, payable monthly and, to the extent reasonably possible, tax deferred, from investments in a diversified portfolio of income-producing multi-unit residential properties located in Canada; and
- maximizing REIT unit value through the ongoing management of Centurion Apartment REIT's assets and through the future acquisition of additional multi-unit residential properties.



Key Strategies

- **Focus on apartments:** Apartments have proven to be the least risky asset class of real estate investment (apartments are a basic needs industry and tend not to be as impacted by anchor tenant risk as other real estate investments).
- **Focus on Canada:** Solid economy, stable and fiscally responsible government, strong banking and resource sectors = a stable and growing environment to invest in.
- **Benefit of a private REIT:** Stable, rational pricing with lower volatility and lower correlation to major equity markets



Two-step Investment Process

1. Value investment style:

- Mostly outside major cities
- Buildings with fewer than 200 rental units
- Previous owners were relatively unsophisticated business operators
- Mostly ignored by large institutional investors due to size, condition and location

2. Upgrade to maximize income

- Upgrades in energy efficiency and utility conservation
- Improve apartment suites and tenant profile to increase rents
- Perform ongoing property management maintenance to keep fees in-house
- Refinance at lower rates to reduce costs
- Maximize income by wrapping enterprise class management, service and technology systems around investment



Key Features

- Monthly distributions
- Tax-advantaged income
- Potential for capital growth
- Private apartment REIT
- Low correlation to other income sectors and asset classes



Investor Details

Investment minimum: \$5,000 (qualified investor)

Purchases: Monthly (any day of the month)

Redemptions: Monthly (30 days notice before redemption date)

Valuations: Monthly

Management fees: Class A: 2.5%, Class F: 1.5%

Performance fees: 5% carried (see offering memorandum for full details)

impressions, addressing complaints, keeping promises and working to keep each customer's attention.

"We took over a group of buildings that had gone through several ownership and management changes in recent years, and where residents had taken to filing complaints with the Property Standards office instead of dealing with the manager for unresolved maintenance issues," said Wayne. "The residents were somewhat skeptical when we took over, so we set up a meeting area in the lobby to engage residents, listen to their issues and explain what Centurion was all about. We addressed more than 40 specific maintenance requests and resident concerns within a short time period. It was important to give a good first impression, and show that we were willing to do things right."

Simplicity is one of Centurion's core values, which involves leveraging technology to make it easier for employees to do their jobs. Head office equipped its site staff with Blackberries, which enables them to deliver relevant information directly to people on the ground. Building notices, leasing information, prospective resident appointments and performance reports are emailed directly to employees' devices so that they can be proactive in dealing with issues. Technology supports a dynamic reporting process, where performance reports can be reviewed quickly and managers can react promptly to important situations.

Innovative marketing is a key driver of scalability. Centurion uses a variety of digital media to drive customers to its call centre, and digital media functions as primary sources for potential renters. Centurion employs search engine optimization techniques to make its web presence more effective. By controlling its marketing dollars and driving new and potential renters to the phone, Centurion is able to increase its return on investment and improve its customer acquisition efforts.

"We have found that prospective customers are two times more likely to book an appointment through a telephone exchange than they are through email," said Wayne. "So all of our marketing efforts are focused on driving calls to our call centre. This allows us to reduce the cost of acquisition for new customers."

Managing assets for long-term growth

The performance of the assets in Centurion Apartment REIT's portfolio is directly related to the company's focus on creating and adding value through an integrated property and asset management approach. As a property manager, Centurion has made it a priority to ensure that its properties are safe, clean and livable for its residents. However, management has gone beyond doing the essentials to improve the value of their assets for the long term,

looking for different ways to improve the properties, which is a central tenet of the corporate strategy.

Centurion will often examine its properties' energy efficiency from a variety of perspectives. While an energy efficient building is more cost effective, it also makes the building more competitive in the marketplace, and creates better value for residents and investors. Management will often evaluate potential retrofits (such as toilets and lighting), and will analyze past retrofits to identify overlooked efficiencies where building science innovation presents viable options. It will also leverage its scale to increase returns through improved revenue and service contracts.

"Product repositioning is another strategy we employ when looking for ways to better manage our assets," said Wayne. "When we took over a building in the east end of Toronto, we determined that it offered greater rental potential than it was currently earning in the micro market. By investing in the building through renovations, we have been able to improve the value proposition for existing and future residents and increase the rental income."

Centurion uses rolling five-year capital expenditure (capex) plans as part of its commitment to maintaining sustainable assets that produce over the long term. During acquisition, management uses independent engineering reports to prioritize capex. The rolling capex plans provide direction for investment of capital in the building, with a focus on safety, efficiency and initiatives to add value. Centurion takes a long-term view of its buildings, which are treated as individual assets within the REIT, and updates its capex plan annually for each property to ensure that it properly maintains its assets for the benefit of residents and investors.

"We expect our assets to return over the long term, so we take a long-term view in ensuring that they are maintained to provide optimal performance and value for our customers," says Wayne.

Looking to the future

Centurion Apartment REIT plans to continue expanding its student housing holdings, which it sees as an important part of its growth. Rental apartment acquisitions will continue to be central to the REIT's growth strategy. The organization will also look to its mortgage team to gradually grow the development arm of its business. However, there are no plans to go public, as Centurion wants to remain in the niche it has worked so hard to develop.

"Our investors want to avoid the volatility of the stock market," said Greg. "There are already a number of good public companies that offer REITs. We want to give our clients the ability to participate in this space, so there is no need to buy and sell stocks." **RFB**