

SEPTEMBER • OCTOBER 2011



Reducing Noise Complaints in Apartment Buildings

NEW
Accessibility Standards

How to PROTECT
Your Rental Business

Housing Benefit Needed NOW!

Skyline Apartment REIT: Local Roots to National Footprint

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FRPO Member Profile



Skyline Apartment REIT

SKYLINE APARTMENT

From local roots to a national footprint

By the time this story hits the pages of FE Magazine, Skyline Apartment REIT will have already added properties number 101 and 102 to its REIT portfolio. Just on the heels of having celebrated two big milestones this summer, the REIT's fifth anniversary and its 100th acquisition, there is no time to take the foot off the gas for this growing REIT.

It all began in the early 90s when, then students, brothers Jason and Martin Castellan and their friend Jason Ashdown, pooled their funds, resources and entrepreneurial spirits to own and manage student rental houses. One house quickly turned into 52 houses, which soon led to the purchasing of apartment buildings, thus sparking the beginning of Skyline in 1999 and then eventually, as the portfolio grew to almost 2,000 suites in 2006, Skyline Apartment REIT was born.

With a current portfolio valued at over \$600-million, made up of nearly 7,300 residential suites and over 840,000 square feet of commercial space, this small business plan devised by three students nearly 20 years ago, is now a national organization ranked as the 10th largest owner and manager of multi-residential properties in Canada today.

For Jason, Martin and Jason (also called Roy to avoid the "which Jason?" confusion), it's been a long ride, but in true fashion and with their usual modest demeanors, they deflect all of their success back onto their nearly 300 staff, over 1000 investors and their many business partners and suppliers from coast-to-coast who all played a part in making Skyline what it has become today.

"Our approach to this business is long-term and in fact, it's quite simple; our primary goal is to ensure these properties remain full while operating at the highest level of efficiency in order to drive revenues for years to come", says Jason Ashdown, Chief Operating Officer.

From an operations standpoint, Skyline Apartment REIT exists in a constant state of self-improvement, always trying to find new innovations and technologies that will improve efficiencies and decrease costs at every level of the business. The company's "Portfolio Efficiency Plan" (PEP) is made up of dozens of unique environmental and energy-efficient initiatives designed to maximize the income generation potential of each property while surfacing value for tenants and investors alike.

Since its inception, the REIT has performed quite well for its investors; in fact Skyline's owners are proud to say that their investors have never lost a penny! "In the beginning our investors were our family members and friends, since then our investor base has grown by word of mouth and referrals in a similar organic fashion", says Jason Castellan, the company's Chief Executive Officer. "We are grateful for the support and confidence our investors have shown since the very beginning and in return, we are proud to offer them piece of mind through a stable and reliable investment opportunity".

Although the REIT is still considered young by industry standards, its resiliency through recent economic downturns and strong presence as a local business leader, community partner and industry innovator, highlight maturity beyond the REIT's years.

Since its inception in 2006, Skyline Apartment REIT's portfolio has grown 270% and from one community (Guelph, ON) to being in 37 communities primarily across Ontario.

The REIT's 100th purchase was also a particularly special project for the REIT as Skyline took on a unique con-

REIT:

struction and restoration project and transformed an 80 year old convent in Temiskaming, Ontario called Place Sainte Marie into a fully functional assisted living apartment building in order to cater to the needs of the area's senior population.

Skyline combined innovation and high-efficiency "green" mechanical systems to revitalize and breathe new life into this treasured local landmark and also partnered with the local assisted living services provider in order to provide the necessary care and health services for its residents. This project garnered much industry attention as it claimed the prized "Rental Development of the Year" honours at last year's FRPO MAC Awards Gala.

This unique project is only one of the many undertakings on the horizon for Skyline. In addition to revitalization projects, solar initiatives and other cutting-edge operational innovations, Jason, Roy and Martin and the Skyline team continue to put community at the top of their list of priorities. "We learned very early on in this business that we are only as strong as the communities in which we operate" says Martin Castellan, Chief Development Officer. "We



remain committed to our geographic communities, tenant communities and our investor community in order to nourish and cultivate strong neighbourhoods, safe buildings and a reliable private investment opportunity”.

Skyline maintains a strong commitment to the simplest principles of their business and never forgets how it all came to be, “it’s all about people dealing with people – collecting rents, paying bills and distributing income while providing homes for our tenants and piece of mind for our investors”.

FRPO’s FE Magazine met with Skyline Apartment REIT CEO Jason Castellan to ask him a few questions about his company’s approach to rental housing in Ontario.

FE: How would you describe your process for acquiring new properties? What makes it different?

Jason: Our acquisition process boils down to one simple fundamental - buy right. Simply put, you only get one chance to buy, but you will have to live with the many consequences of that purchase for as long as you own the property. Of course, as our portfolio has grown, we can now compare certain types of buildings with buildings already in our portfolio in order to estimate more accurately the performance and cost to maintain a property. We conduct extensive due diligence on properties to ensure they are a “fit” and we rely on pro-active research and selection methods to find the properties that are accretive to the portfolio.

FE: How do you select the right properties for your portfolio?

Jason: Again, by having owned at one time or another over 150 properties over the years, you can look at a property in its current situation and assess if it is properly positioned for the market in which it exists. If we find a building that has potential but that does not quite fit with the demands of the local market, we consider a repositioning of that property. If we can reposition a building to better suit it to that market at a reasonable cost, we will certainly do so. For example, adding elevators to properties to make them more accessible in order to attract seniors in an aging community can transform a property into a successful addition to the REIT.





FE: How have you been able to weather the storm so well in light of the economic downturn in 2008 and with recent market volatility?

Jason: Owning Canadian real estate has been a safe place to be invested during those times, specifically in the multi-residential market. An economic downturn has in fact proven to benefit our asset class. As jobs become scarce and people fear for their personal financial security, home ownership becomes less attractive, but everyone still needs a place to live, after all, no matter the state of the economy, food and shelter are essential for survival. Renting from a reputable landlord like Skyline provides piece of mind to tenants of all types in these times and makes our REIT model able to weather the storm and even prosper in poor economic times.

In fact, our business remained consistent as the volatility of the public markets does not have a direct impact on our REIT investment. Regardless of what the stock market dictates, we continue to collect rents, fill vacancies and work to drive down costs. There is essentially no change to the value of the REIT because it is private and the numbers dictate its value, not public demand and speculations. For us, it is business as usual.

FE: You took home the FRPO MAC Award for “Outstanding Community Service” for the past two years in a row, why is supporting community so important to you and your business?

Jason: We have learned first-hand over the years that strong communities help drive strong business. We currently house almost 20,000 tenants

and many of the community programs that we support are those that our tenants often rely upon. We see the benefits that our community commitment has in our buildings and the impact it makes on the lives of our tenants – community support simply makes good sense for everyone involved. Even in our own backyard, it is important for us to give back to the very community that supported us and helped us build this company. Being a strong community partner is something that is engrained in every level of our business.

FE: What kind of energy efficiency initiatives make up your Portfolio Efficiency Plan (PEP)?

Jason: Simply put, we are always looking for new ways to use less energy in an effort to make each building operate more efficiently. The PEP is

made up of a number of initiatives such as lighting improvements, low-flush toilets, new boilers and windows. We have found that it is easier to save a dollar than to make a dollar in this industry so we are constantly looking at the portfolio with a critical eye. As a peripheral benefit to these improvements, we have also found a direct correlation between property improvement and longer tenant retention and satisfaction. Providing tenants with energy efficient and environmentally friendly homes gives our tenants peace of mind and the pride of knowing they too are doing their part for the planet. We are also currently in the process of installing rooftop PV solar systems on many of our buildings in an effort to increase our energy efficiency, our operational effectiveness and to further drive revenues for our investors

FE: What do you remember most from the early years of when the company first came to be?

Jason: When I look back now, I remember the tough learning curve we came through. We were working long days, doing absolutely everything ourselves, making mistakes and earning peanuts. Now we know how to make the right decisions as we have learned this business ourselves, from the ground up with our own two hands.

FE: What were some of the challenges you faced?

Jason: We had no track record and it was difficult to secure funding. Luckily we had good friends and family who believed in us enough to invest with us in order to help us grow the business. Also, spreading ourselves too thin was a huge challenge. Today, having an incred-

ible team of dedicated and hardworking professionals is something we value and attribute our continued success to.

FE: Did you expect Skyline to grow to this size?

Jason: Our growth continues to expand at a rate beyond our early dreams of what this business could be. I still remember our one room office with no bathroom and what seemed like a huge 200-unit portfolio at the time, we pondered many times what we would have to do to get to 1,000 units, or if it was even possible. This business is very difficult to set goals for as growth often depends on things that are out of your control – the availability of good purchases, investor equity and a favourable lending environment all dictate how much or if we can grow.

FE: What special things does Skyline do to attract and retain tenants?

Jason: Tenants, like all consumers are value driven. Offer a product with great services and amenities for a reasonable price and you will attract an interested consumer (or tenant). For us, it's more than just the product; it is about the experience of living in a Skyline building. Our tenants have the piece of mind that knowing that the rent they pay is being reinvested into the building in which they live to help create a better home and community to live in. We have witnessed the positive impact that our many social events, community-building and neighbour-awareness programs have had on tenant satisfaction, retention and ultimately tenant referrals.

FE: A challenge in the rental housing industry is finding skilled and experienced staff. How do you address this issue?

Jason: Even though from the surface this business may appear to some as being simple, it is in fact quite the opposite. Our field staff must have a broad skill set ranging from maintenance and repairs to sales and public relations. Needless to say, finding individuals with such multi-faceted abilities is always a challenge. However, we deploy a great deal of resources into training, mentoring and supporting our existing staff and such initiatives make a significant impact on turnover and employee job satisfaction.

FE: What is your future outlook for rental housing demand?

Jason: Statistics show a steady rise in house prices and that affordability is becoming a greater issue for homeowners in Canada. For that reason, I think that the demand for rental housing will continue to be strong. Low interest rates make it attractive for tenants to buy, but not all demographics are looking to buy a house. In fact, we are seeing a shift where the boomers are actually selling to move into more upscale apartments which allows them to free up their capital and gives them the freedom to do more while not carrying the burden of a house or a mortgage. The government has also done a great job of regulating the banks to tighten mortgage rules to ensure that we don't run into the same mess that occurred south of the border, and as a result, a nice stable balance will ensure that there is a steady flow of tenants into our buildings for today and for years to come. **F**