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Canadian
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Vol.5 No.1 Mar/Apr 2012
rentalhousingbusiness.ca



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SKYLINE APARTMENT REIT



What factors contribute to the financial success of a Real Estate Investment Trust (REIT)? You have to find, purchase and enhance properties that match specific investment needs. You need experienced property managers to maintain the properties that will attract high quality renters and maximize every building's value. You also have to establish solid financing, attract the right investors, and know how and when to grow the investment.

Putting these resources in the hands of experienced personnel will contribute to a REIT's growth and success. Combining them under the same corporate umbrella – where they can support their respective endeavours and the company's goals – will provide opportunities to differentiate the REIT from other investment options.

Skyline Apartment REIT is one of the largest owners and managers of multi-residential real estate in Canada. Its portfolio consists of more than 100 properties, with over 7500 apartment units and over 825,000 square feet of commercial space. The REIT is the sole focus of Skyline Incorporated, which provides a full complement of services through three separate businesses that employ a synergistic value-add approach to support the REIT's growth.

"Our business model is scalable, adaptable and full-service," said Jason Castellani, Skyline Co-founder and CEO. "Keeping our functions in-house ensures that our interests are aligned and that our companies' common vision and goals are met."

Skyline Apartment REIT was created in 2006 as a more efficient investment vehicle than its previous syndication-based approach to real estate investing. Wayne Byrd, Skyline's Chief Financial Officer, helped lead the transition for establishing the REIT. He served as liaison between the organization and the lawyers, auditors and accountants involved in creating the REIT. He also communicated with shareholders to ensure that they understood the value of their investment within the new REIT structure.

The REIT's launch eventually led to the separation of the property management, asset management and wealth management functions into independent business units: Skyline Management Inc. (SMI), Skyline Asset Management Inc. (SAMI) and Skyline Wealth Management Inc. (SWMI). Creating independent entities provided lenders, creditors and shareholders with a better understanding of each business unit's role with respect to growing and servicing the REIT.

"The results have been very positive, as we have clearly defined the operations of each company," said Wayne. "Had we not separated the divisions, it would have made it more difficult to value the companies accurately. With respect to business valuation, in our case, the sum of the parts is greater than the whole."

Skyline Asset Management Inc. (SAMI)

Mike Bonneveld, Director of Acquisitions with Skyline Asset Management Inc. (SAMI), is responsible for purchasing properties for the REIT. He works with a team to conduct due diligence prior to purchase, arrange financing for purchases and existing assets, engage in asset management, negotiate contracts and create capital upgrade plans for properties. Mike eventually hands purchased buildings to Skyline Management Inc. (SMI), which manages the properties and their day-to-day operations for the REIT.

"Mike has more than 15 years of experience working in the capital markets, with public companies and in the real estate brokerage industry," said Jason. "He has developed great relationships with lenders and brokers, so he's able to finance new properties very efficiently. He has a knack for finding great deals, and he has the underwriting formula down to a science."

The acquisition process begins with determining what properties to purchase that will complement the REIT portfolio. Buildings must be concrete construction and meet minimum size requirements. SAMI looks at properties in markets that fit with the REIT's portfolio and that make use of current resources, as well as in new markets where they can establish a foothold. The company often searches for properties outside major cities, as secondary markets tend to offer more value.

SAMI has built a strong referral network of real estate agents, suppliers, friends and others who regularly bring purchasing opportunities to the table. Visiting buildings and driving around prospective neighbourhoods are also great ways to identify opportunities, although not every building fits the Skyline criteria.

"We will buy a wide range of buildings that meet our requirements, but in the end it has to fit," said Mike. "Properties that were run by good landlords may only require new signage and landscaping, while other buildings may provide opportunities for greater returns through upgrades in energy efficiency. We will also purchase and extensively renovate properties to make them more suitable for a pre-determined market or demographic, which creates more value for the REIT and our investors."

"Another example of a value-add initiative is our rooftop solar installations," added Roy Jason Ashdown, Skyline Co-founder and Chief Operating Officer. "We will be installing up to 80 rooftop solar



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systems by the end of 2012. These systems will generate hydro that is sold back to the grid, ultimately providing an expected 15% annual return on investment."

Obtaining financing is vital for making new acquisitions. SAMI works with lenders to either assume an existing mortgage or to place new debt-financing on an existing property. Skyline works with lenders to refinance the portfolio's existing properties that come due each year to take advantage of existing interest rates. SAMI also works closely with Skyline Wealth Management Inc. (SWMI) to raise the appropriate level of financing required for new purchases.

Due diligence is a key element in the purchasing process. SAMI examines the building's costs, such as repair and maintenance expenses, historical financials, taxes and insurance, as well as its past and projected revenues. The in-house construction team and outside contractors perform physical inspections to review short-

and long-term capital cost requirements. It performs environmental reviews to ensure that it does not inherit someone else's problems. SAMI's in-house legal group also reviews the building's contracts and title.

Skyline Management Inc. (SMI)

Matthew Organ, Director of Operations with Skyline Management Inc. (SMI), is responsible for managing the properties on behalf of the REIT (as well as third-party properties). The company offers comprehensive property management services, including tenant recruitment, maintenance, service contract negotiation and implementation, marketing, rent collection, financial reporting, accounting services and insurance placement. Matthew's team is instrumental in the smooth transition following the acquisition of a new property. Most importantly, the SMI team cares for more than 20,000 people who live and work in Skyline buildings.

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“Matthew has made SMI successful by consistently focusing on customer service,” said Martin Castellán, Skyline Co-founder and Chief Development Officer. “He knows what it takes to keep our tenants happy, and he is extremely adept at controlling costs to maintain the profitability required to run the business.”

SMI works closely with SAMI during acquisitions to ensure that the most appropriate properties are purchased for the REIT. As a property management company, it provides a different perspective on a property’s potential value and its true “fit” within the portfolio. Once SMI takes control of a building, Matthew ensures that it is fully integrated within the portfolio and adopts the Skyline philosophies, policies and procedures.

SMI and SAMI work together to implement initiatives outlined in the Portfolio Efficiency Plan (PEP), which is integral to Skyline’s mandate to be energy efficient and drive asset values. The goal is to improve each building’s efficiency and have a positive impact on the bottom line through cost-saving initiatives. This includes allocating funds for capital projects, in-suite renovations and upgrades, and then measuring the effect on revenues and expenses. Through regular portfolio analysis, they also identify areas with above-average costs, and develop strategic plans to rectify ongoing issues. A complete retrofit of a building can cut utility consumption in half and surface millions of dollars in value for the REIT.

SMI works to improve its buildings’ tenant mix through advertising and open houses. They offer a tenant referral program that rewards tenants who bring in new renters through word-of-mouth promotion. The company encourages residents to tell friends and family about upcoming availability to help choose their neighbours. SMI also educates tenants on what is involved in living in their buildings.

“We believe in maintaining tenant satisfaction and treating each property like a community,” said Matthew. “Each building has several tenant events per year, which contributes to creating a more community-like atmosphere. This means longer-term tenants, less turnover and more tenant referrals, which increases the value of our buildings.”

Skyline Wealth Management Inc. (SWMI)

Marissa Morettin-Teeter, Director of Investor Relations with Skyline Wealth Management Inc. (SWMI), is responsible for investor relations and compliance, as well as marketing and communications for the REIT and Skyline. She promotes one product (the Skyline Apartment REIT) and functions as the intermediary between the REIT and its investors. Marissa and her team educate potential investors about the REIT’s specific characteristics and benefits, and tailor the investment experience to each individual’s knowledge level and needs.

“Marissa is proactive in communicating our message to investors, and gives them a better understanding of what they are investing in,” said Jason. “She uses her marketing expertise to deliver our brand in a

professional yet relatable manner, which has enabled the REIT to grow at a much quicker rate than was previously possible.”

There is constant communication between SMI, SWMI and SAMI, and a common alignment of goals. Being close to the other business units (and managers) means that everyone is closely connected to the REIT and its needs. When SAMI requires equity to buy buildings, Mike can contact Marissa to arrange the necessary investor funds to complete the purchase. This results in a more efficient use of investor equity, lower financing costs and ultimately greater profits for the investors.

Investor relations involves providing a unique experience that is based on educating, engaging and informing investors. The learning process is customized to each investor’s level of knowledge, investment style and personal goals. SWMI’s purpose is to create a community of investors rather than a place to simply conduct transactions. This involves holding special investor events, such as holiday cocktail parties, annual general meetings and regular charity events, where investors can meet the Skyline team and interact with each other.

“When investors are connected, engaged and informed, they become more comfortable with the investment,” said Marissa. “This has contributed to the organic growth of our investor base, as a significant portion of our equity is the direct result of warm referrals from happy and well-informed investors.”

SWMI exists as a separate entity from the REIT and is solely responsible for compliance-related matters. As the principal dealer of Skyline Apartment REIT units, SWMI has full knowledge of the product, thus eliminating the need for a middle man and providing the investor with information direct from the source.

“Although we are a private entity, we are registered and fully compliant with securities regulations and offer full transparency to investors through regular communication of financials and performance-related reports,” said Marissa. “We have a perfect track record of distributing a 9% annual distribution to investors and offer peace of mind through our open-door policy and consistent communication.”

However, the REIT is not open to everyone. Classified as an Exempt Market Product (EMP), it is only available to qualified investors who meet specific exemptions as set out by law. Eligible investors must make a certain minimum investment, or meet specific net financial asset or net requirements, to qualify. Qualified does not necessarily mean suitable, and it is SWMI’s responsibility to determine if the investment is properly aligned with the investor’s investment goals, expectations and risk tolerance.

“Our philosophy is investor-centric,” said Marissa. “The investor experience is not outlined on a piece of paper, and there are no standardized sales scripts (outside of the compliance requirements checklist). We invest time and energy to ensure that we get to know the investor and provide them with the tools they need to make a sound investment decision.”

“It is through organic growth that we came this far and we will continue to evolve and grow if and when the time is right.”



Future Plans

Skyline plans to continue on its path of purchasing, managing and adding properties to the REIT’s portfolio. With a considerable supply of residential and commercial real estate available in Ontario and across Canada, the company will maintain a narrow focus on the properties that fit its mandate and expertise.

“We have the ability to grow quickly and efficiently because of the scalability of our management model but we do not have specific growth targets in mind,” said Jason. “It is through organic growth that we came this far and we will continue to evolve and grow if and when the time is right.”

Although the Skyline Apartment REIT has been successful, the company is not resting on its laurels. Skyline is in the early stages of focusing the company even further by launching a second REIT. This will enable it to streamline its properties into either the Skyline Apartment REIT or the new Skyline Commercial REIT.

Besides providing greater focus and more investment opportunities, the second REIT will enable Skyline to address several key issues. It will help to improve their borrowing options, as the current mixed REIT causes confusion for some financing sources. It will also allow potential and existing investors to choose the REIT that best suits their personal investment portfolio needs, providing an additional level of product diversification.

“Each REIT will have different characteristics, and will provide more choice for our investors,” said Jason. “We plan to develop each one very carefully. Six years after launching our first REIT, we have a much better understanding of what goes into an effective launch and we will certainly be able to shorten the learning curve and benefit from our previous experiences.” **RHB**