An alternative on lending

Greg Romundt of Centurion Asset Management details how his firm has branched out from its real estate roots to offer investors the opportunity to lend to businesses of all stripes

IN BUSINESS, evolution is necessary for survival. Any company that isn't able to move with the times will ultimately be left behind, but that isn't a criticism that can be levelled against Centurion Asset Management. When Greg Romundt founded the firm in 2003, its main focus was the secondary markets in the apartment space. That remains a key part of its portfolios today (Centurion is the largest non-school-affiliated institutional owner of student housing in Canada), but the company has branched out in many different directions, offering investment funds, financing and property management services to a growing list of clients across the country.

"We have really broadened from just one small area of real estate to become much more broad alternative investment shop," Romundt says. "We finance the development of new multi-family and student housing on the equity side. We also have a commercial credit department where we lend to different companies."

While the company has diversified in recent years, the product most people associate with Centurion is its apartment REIT. The properties in the fund are residential and primarily in the GTA, which is a market currently dominating headlines and public discourse. As the price of real estate has exploded in Canada's largest city, funds with greater exposure in that area have been generating healthy returns. Investors in the Centurion Apartment REIT garnered a 9.8% return last year and can expect even better for 2017, according to Romundt.

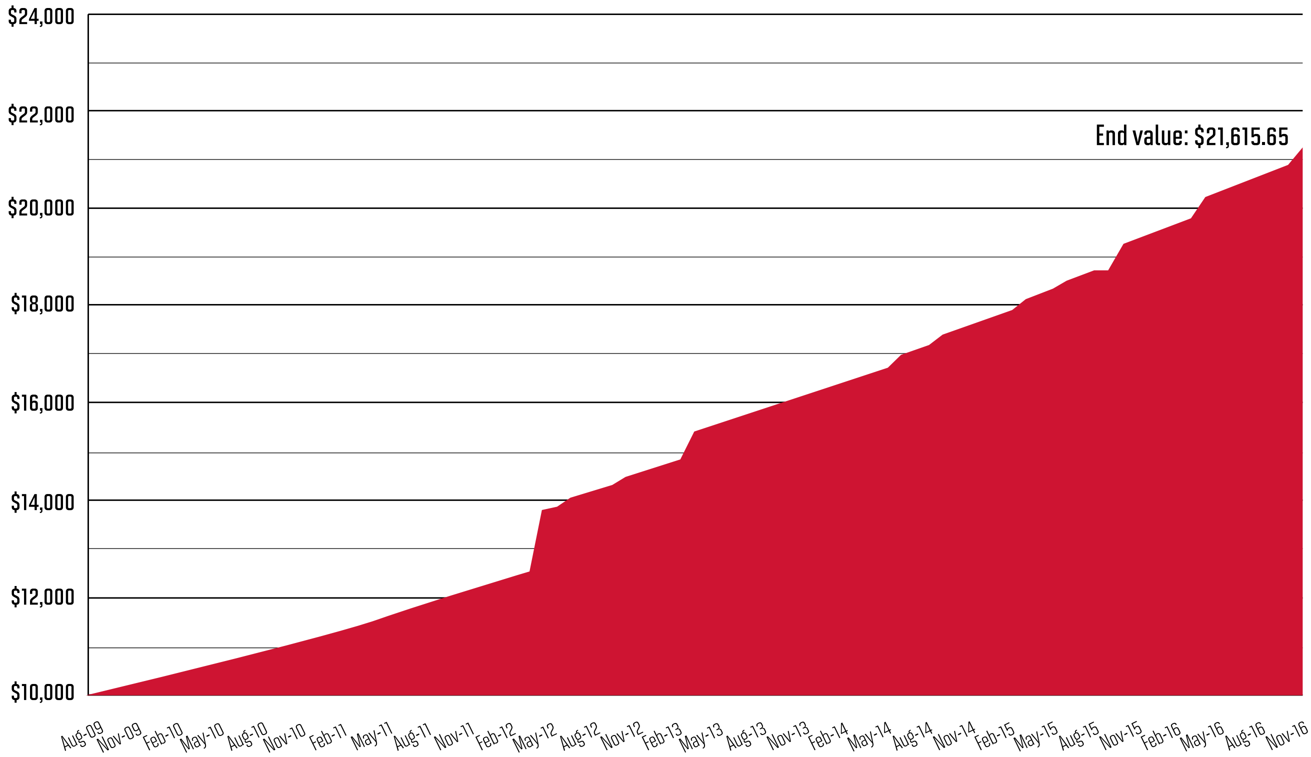
"I anticipate what is happening in the real estate market to flow much more into the apartment market this year," he says. "We are already seeing signs that prices in apartment buildings are being dragged up this year – that wouldn't have been reflected in our 2016 returns, so I think this year will be very strong as well."

The market in the GTA has become so molten-hot over the past 12 months that the Ontario government saw fit to introduce a number of measures last month in an attempt to cool it off. There is a sharp divide in public opinion on whether those efforts will have the desired effect or simply make the situation worse. For his part, Romundt considers the interference to be a mistake, highlighting the new tax on property speculation as especially misguided.

"Smaller retail investors are a very large proportion of the people who are buying condos," he says. "For developers, these buildings are massively expensive. The banks require 80% pre-sales before they give the financing to build them. The market really relies on these retail investors to finance the construction of these condos. If those people pull out or buy less, fewer will be built, so how does that help the supply chain at all?"

CENTURION APARTMENT REIT GROWTH

Based on $10,000 invested



In his opinion, the main cause of escalating prices in the GTA is a lack of supply, which he can gauge simply by looking at the underlying assets in Centurion's REIT. Faced with annual home price increases of 30% or more, many renters are electing to stay where they are, with obvious implications for supply.

"We have seen turnover rates at apartments buildings decline significantly," Romundt says. "It used to be that 25% to 30% of residents would move in a normal year – that has dropped by about half, so there are maybe only 15% of people now moving. We have virtually no availability of apartments, as they get snapped up months in advance."

Aside from its flagship REIT, Centurion also offers two specialized debt funds: Centurion Real Estate Opportunities Trust and Centurion Financial Trust. The former is for qualified investors with a minimum of $25,000 who are seeking exposure to mortgage and real estate debt. The fund had a 14.14% return in 2016, which was comfortably above the firm's 7% to 12% target.

Centurion Financial Trust, meanwhile, is the newest addition to the firm's lineup, launched earlier this year. A corporate debt fund, it also includes exposure to mortgage and real estate debt, and is a product Romundt has high hopes for.

"The banks have pulled back more and more from traditional-type lending," Romundt says. "On the real estate side, we really are an alternative to the banks, and we thought there was a greater opportunity than just real estate because all borrowers face the same kind of challenges. So we thought that, rather than having just a real-estate-focused debt fund, we would do a broader debt fund that would diversify into other corporate segments as well." WP

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