

EXEMPT EDGE

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BACK TO BASICS

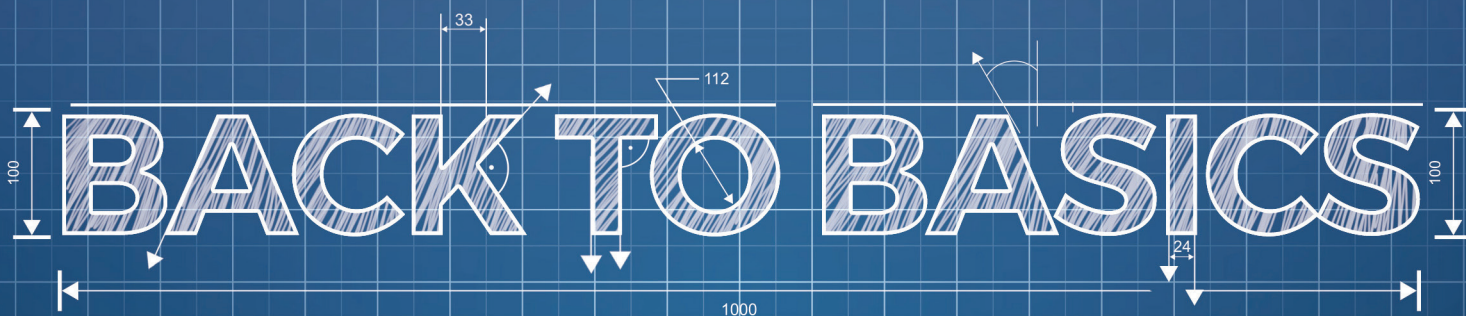
**FROM EMERGING MARKET DERIVATIVES TO RESIDENTIAL REAL ESTATE
GREG ROMUNDT & THE CENTURION STORY**

WOLF IN SHEEPS CLOTHING

BY CRAIG SKAUGE

THE BEST OF BOTH WORLDS

BY PAUL GHEZZI



FROM EMERGING MARKET DERIVATIVES TO RESIDENTIAL REAL ESTATE

GREG ROMUNDT & THE CENTURION STORY

I was never happy with the volatile nature of trading profits. I counted profits and losses by the hour and my performance was judged daily. It was the antithesis of long term thinking.

Centurion has now been in business for over 13 years and I have spent the last 25 years managing investment capital. This is the story of how Centurion went from its small beginnings as my original second career/early retirement plan to something wholly different than my original vision; how that vision changed over time and the bumps we had along the way. It's also the story of how it may not have happened if I was starting out today.

Concrete & Derivatives

I grew up in Toronto in a middle class family. During my school years, I worked in concrete and masonry repairs (mostly of apartment buildings) to pay for my education. I never thought I'd use those skills again. I had no idea at the time I'd end up in the apartment business and that those skills would come into use every single time I look at a building today. I graduated with a degree in business from Western University in 1991.

Shortly after graduating, I started my career in finance at Citibank in Toronto on their interest rate derivatives desk. From there I was promoted to found the exotic options desk (i.e. really complex derivatives) and then run currency options before moving to New York in 1994, where I built their exotic options department. I was then asked to move to Singapore to build another similar business for the bank in 1996, except this time specializing on emerging market currencies. In 1997, AIG recruited me away to build an emerging markets derivatives business for them based in Hong Kong. A year later, they asked me to move to London, England to run their global emerging market derivatives desk, and then I would eventually become the partner in charge of global emerging markets and sit on the firm's risk management committee.

A Side Career in Real Estate

While in London, my wife who was from Singapore, longed to return home. The dreary

weather had dragged on me as well, so we moved back with our two small children in 2001. Trading had taken its toll on me, and while the money was very good, I was never happy with the volatile nature of trading profits. I counted profits and losses by the hour and my performance was judged daily. It was the antithesis of long term thinking. In my personal investments I wasn't permitted to trade for my own account, but I was never content to put my money in the bank or passive mutual funds and hope for the best. As I sought stability and reasonable returns, my primary investments were apartments. I started investing in them while I was in Hong Kong. I spent my weekends with my wife looking for opportunities and started building a portfolio of apartments in the UK, China, Singapore and Australia.

An Unfulfilling Early Retirement

By 2002, I'd had enough of trading, so I left AIG and decided at the ripe old age of 33 to pack it in and retire. The fantasy of early retirement was nowhere near the reality. There are only so many days you can hang out at the pool and pretty soon I'd had lunch with all my friends. I thought I'd learn to play golf but when I went to the club, it was filled with people twice my age that I had little in common with. My friends had jobs. I was bored, stressed and miserable.

The turning point came for me when I woke one morning and asked my wife what we were going to do that day and she replied: "I don't know what you're going to do today, but I know what I'm going to do today and it has nothing to do with you. Find your own program!" In an instant I recognized that I was relying on her to keep me entertained and it wasn't healthy for our relationship.

I hadn't arrived at where I was in life because I was an individual that could sit still. I was a 'type A' personality and needed challenges to overcome to be happy. I knew I needed to build another business, except that the next

one would be mine. I knew that I enjoyed running my property portfolio more far more than trading primarily because:

- If I bought and managed it well, a good investment would pay me for a lifetime instead of the trade that paid just once.
- I could create value in real estate by upgrading the assets which I couldn't do as a trader.
- I was attracted to the much lower volatility of residential real estate.

Centurion

I've often been asked the origin of the Centurion name. My last name (Romundt) has been mispronounced and misspelled more often than I can count. A common mispronunciation is 'Roman.' I was looking for a name that gave the impression of discipline (I consider myself highly disciplined) and strength. Centurions were professional officers of the Roman army. Centurion just seemed like a fit on all counts.

I began looking around the world to determine where the best place was to build my apartment business. I looked in Asia, Australia, Europe, the US and Canada. As luck would have it, the best opportunities at the time were in Ontario, where I was from. Property yields were high and the availability of cheap financing meant that leveraged yields of 20% were possible. Capital appreciation from income growth and asset repositioning was just additional gravy. It seemed like money was left on the ground. All you had to do was pick it up. So I set about a plan to move back to Toronto with my family.

I founded Centurion in 2003. After spending about twelve years building businesses for others, it was time to do something on my own, away from a large corporate bureaucracy. The vision at the time was just to build a personal portfolio. I didn't have building a large organization as an objective. I didn't want to be accountable to others so I'd be free to do what I wanted to do.

Finding a Niche

I knew that I needed to choose a strategy that didn't pit me against too much competition. If I focused on very large properties, not only would I be competing with very well-funded, sophisticated competitors, but my diversification would be low, and thus my risk higher. If I focused on really small properties, my competition would be similarly fierce, but I'd be competing against many unsophisticated investors, which would similarly mean low returns (as they often dramatically overpay for properties).

So, mid-sized properties seemed to be the right size. It would grant me diversification and seemed to have the least competition. Next, I segmented where my geographic locations should be. It would have been easier to do just Toronto, since that's where I lived. However, a lot of investors think that way, meaning again that competition would be fierce. Secondary and tertiary markets attracted less attention at the time so combining the strategies of secondary and tertiary markets and mid-sized buildings seemed to be the least efficiently priced target market with the best opportunities. I also recognized that I could focus on either buying 'perfect' properties or buying properties where I could move the needle and improve the income and asset values. I was always happy to buy 'perfect' properties, but it's very hard to do so at a reasonable price. So I knew that I wanted properties where I could get a good starting return with some upside, but would have to work for that upside. I also wanted to avoid auction-type sales processes as it would be less likely we could buy well.

Creating a Fund & Building the Centurion Portfolio

I started looking for properties and began to build my portfolio. I was happy. As time passed I received requests from friends and family to accept their money to manage in apartments. I wasn't interested. That would

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mean that I would have people to be accountable to, and I wasn't thrilled with that.

Eventually, enough large cheques got waived in front of me that I saw the benefit of further diversifying the portfolio, gaining some economies of scale and covering some overhead which I had to pay anyway. Now I had to do reporting. I quickly realized that it's the same to write one report for one reader as it is for fifty, so the next logical step was to build a fund. After all, I enjoyed what I was doing and I loved building the business. Besides, standing still is like running backwards to an entrepreneur.

Starting & Staying Private

Our first fund, Centurion Apartment Properties Limited Partnership (CAPLP) was born in March 2006. We raised some capital from friends and family and institutional investors. The plan at the time was to go public, there were lots of capital pool companies buying real estate and converting to REIT's and raising capital and investment bankers pitched us on the 'wisdom' of doing the same. At the time, we believed them and continued to build the portfolio to get enough scale to do so. Fortunately for us, the financial crisis came along before we got there.

After the financial crisis, the capital markets were closed for everyone, and small REIT's saw their unit prices crushed, regardless of how well their business was performing. Some of them saw unit price drops of 80% or more. If we had been a small public issuer, we would have been stuck because we couldn't have raised capital except with massive dilution. So we just focused on our business. We then began to ponder how we could raise capital and grow our business. The solution was staring us right in the face.

In 2006, the government announced that income trusts were going to be phased out, but that (most) REIT's would be exempted. In addition, interest rates plummeted, meaning that people that required income from their investment to fund their lifestyle had fewer options now. The main option, the stock market, had crashed and was very volatile. Apartment values had held firm though, one of the few classes of assets or even of the real estate sector that did so. Another option,

complex financial products, had fallen out of favour with investors. They didn't understand them. They wanted to buy things they understood. So, it seemed that a private REIT was the solution.

I was further attracted to raising capital privately because if we were public, assuming we could get capital, we would have to grow very fast to get to a scale that would attract analyst coverage, institutional interest and a public following. If you don't grow fast enough, the market loses interest in you and you can become an orphan with poor trading volumes and a declining price which eventually means you just get bought out by a competitor.

I never liked having to grow just for growths sake, or worse, paying above fair value to do so. Being private let me just focus on building the company the way I wanted to, at the pace that I was happy with, without having to be forced to buy scale to satisfy the public markets.

In addition, being public would also put me on the quarterly reporting treadmill. I knew I'd have to spend way more time focused on running a public company than actually running the business of the company.

Lastly, access to capital would likely be steadier than in the public markets. We have found over the years that every time the stock market gets volatile, demand for our funds has increased.

Against the Grain: Forming the Private REIT

In the fall of 2008, in the thick of the financial crisis, I knew that I wanted to move ahead with forming a private REIT. I spent months reviewing competitors in the space and included other structures like limited partnerships (LP's), and mortgage investment corporations (MIC's) in the analysis.

After a few months of research, I went to the lawyers to build the formation documentation and an offering memorandum. It took almost nine months to get this done. The bill was around \$250,000 before we'd raised a nickel. I went out looking for dealers to distribute our fund. I knew the big banks wouldn't be interested in a small, private issuer like Centurion so I sought out exempt market dealers (then called Limited Market Dealers). When I approached the EMDA (Exempt Market

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Dealers Association) in Toronto, they wouldn't provide a list of anyone I should speak to or even publish their membership list. I had to go to the OSC website and print out a list of all registrant firms, then eliminate captive EMD's (the majority of them), and start cold calling the rest.

It was hard to find distribution. That's one of the great things that I believe NEMA has done for the exempt industry. It has made it easier for those seeking capital to find an EMD to help them. They can do with few phone calls in a day what once took months of manual work.

To start, I found more success out in western Canada. It was a market more used to raising private capital. Also, Eligible Investors as a category existed out west, although I had no idea at the time what Eligible Investors were. When I spoke to some advisors, they asked whether my offering contemplated Eligible Investors. Since I had no idea what they were, I called up my lawyer to ask them whether I could sell to Eligible investors and they said "No, unless you'd like to go to jail." Firmly convinced that prison wasn't on the list of things I was prepared to accept as a risk, I called back to say no, that I couldn't do it and relayed what the lawyers had told me. I was told to go back and say "45-106 F2 Compliant Offering Memorandum". When I did, my lawyer told me "Sure, if you do that, no problem." I was dumbfounded and angry. I had spent an enormous amount of time and money to make a useless paperweight.

My top tier, expensive, Bay Street based lawyers hadn't even bothered to advise me that these exemptions existed. Even though they knew about the exemptions, since they didn't exist in Ontario at the time, they didn't produce anything other than 'accredited investor' OMs as if the rest of the country didn't exist. To those of you who reside outside Ontario, I know this is a familiar feeling, and never before had it hit me so hard in the face in my own experience. So, I set off to find a Western-based lawyer who could fix the OM. A few months later, and we were up and going to a broader range of investors in the exempt market. I subsequently made my original lawyer pay for the fixes to their useless document.

Growing Distribution in the Exempt Market

I had originally assumed that building exempt market distribution would have been easier than it ended up being. It took time for us to find advisors to sell the fund. It was slow but we continued to build this over time. It eventually became clear that we needed to have our own EMD to accelerate our growth. This was also a requirement to get the REIT on FundSERV so that the larger IIROC advisors could sell us.

We started the process that ultimately was responsible for accelerating our growth. Recently, CSA staff published Notice 31-343 (Conflicts of interest in distributing securities of related or connected issuers). I hit the roof. It's clear to me that if we hadn't had our own captive EMD, we wouldn't be where we are today. We would be much smaller or may have sold out to a larger competitor.

Captive EMD's are part of the fabric that makes for a vibrant capital market and helps many small issuers raise capital when they don't know where else to turn. Over time, we were able to build distribution to over 50 platforms, including EMD's and bank led dealers such that our captive EMD is less of an asset today than it used to be.

With scale came institutional investors. This group of investors had been very difficult to attract when we were smaller. Canadian institutional investors are very conservative. I was used to the old days of talking to US hedge fund and central bank clients. If I had a good investment idea, I'd often have clients get on the trade with me within hours. It was simple. I'd recommend a strategy and if it was good, I'd shortly thereafter have a few hundred million dollars in orders.

As a start-up asset manager in Canada, we didn't have a long enough track record, we didn't have a brand name and we were too small. Minimum investment sizes for these investors were massive at tens or hundreds of millions of dollars. Even though they liked the strategy, they couldn't invest due to scale. We couldn't accommodate them when we started, but as we grew; they sought us out and today comprise a large portion of our investor capital.

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TIMING: WHY CENTURION WAS A SUCCESS STORY

(But Maybe Wouldn't Happen Today)

Today the REIT has grown to almost one billion dollars in assets. If I was going to start out today, I'm not sure that it would be possible to repeat Centurion's success using the same strategy and niche. Here are the reasons: First, when I started Centurion, there just wasn't a lot of competition. The market was less sophisticated. There were fewer institutional players. Property yields were much higher as a result. When we bought properties, we paid for 'in place' income. Any upside we saw, or that existed, the market didn't really pay for. That has changed. Investors now look at a property 'as is' and factor in all the things that can be done to improve its yield and a good part of that upside will be built into the final price.

Second, returns on many asset classes were higher. A decade of near zero interest rates has compressed available investment yields everywhere. This has helped to drive past returns but also made it more difficult to buy any income producing assets accretively.

The third challenge is that the service culture has changed in the rental industry, so resident expectations have changed as a result. Years ago, due to Ontario rent controls, property owners didn't renovate their units because there was no benefit to doing so. It used to be if you were doing renovations, you were doing something different and it was easier to differentiate your property as an attractive place to live compared to the competition. Today, many more owners are renovating their units to compete and to drive revenues. This means that what once differentiated you is now just business as usual. It was once possible to be a 'passive' owner and earn reasonable to good returns. Today, you need to be an 'active' owner to earn reasonable returns and the number of opportunities to do so are fewer.

The fourth reason is that technology has advanced considerably. This has been a good thing. It is one of the reasons net operating margins have increased from 45-50% to 55-65% in the span of ten years. They are still

rising because of technology. To get those margins though, you need to be more knowledgeable and active as a manager than you used to be. In the last decade alone, we've changed toilets from 12 litre to 6 litre, and now to 3 litre models. Lighting has gone from T12 to T8 ballasts, then to compact fluorescent lights, then to LED, and then to the introduction of motion and occupancy sensors. Then there is submetering of previously included utilities to drive costs down further. The list goes on. We have a team of experienced people that focus on innovation and extracting efficiencies. Without our scale, we may not have been able to do so. Without this embedded knowledge, it's harder to break into the business. The spread of this technology means that property sellers aren't leaving as many opportunities unexploited when they sell and property buyers are factoring these opportunities into their prices as well, reducing the returns available.

The cost of capital has dropped slower than available returns have. Therefore, you require efficiencies that will allow for growth because you can make middle of the road deals accretive. Smaller and less efficient investors can't do the same. This is just further widening the gap between larger players and start-ups. We're starting to see investor return expectations decline along with their risk appetites. Given the prospect of low or negative rates, expectations probably need to fall further. If your cost of capital is too high, you can't grow unless you take very high risks. We've lost deals due to cost of capital issues because we've been unwilling to deviate from our risk/return discipline. That's why when I'm asked when I'll increase distributions, I tell investors that it is unlikely for now. We need a competitive cost of capital to continue to grow accretively and to build our economies of scale to drive returns.

Continuing to Evolve for Success

Centurion has had to continually evolve and cut fees along the way to keep returns up. Over the years, we cut fees about five times and

eventually in 2015, internalized our asset and property management infrastructure into our funds. Aside from increasing alignment with our investors, this saved about 2.5 million dollars in costs in 2015 alone, and we expect that number to grow over time. To continue to build the business and grow, we needed to continually drive revenues, cost controls and efficiencies.

We also had to evolve to advance the business as it became more competitive. Not only were more people wanting to get into the apartment business after the financial crisis due to their proven stability during the crisis, but the investors entering the field were institutional, smart, well capitalized and aggressive. To continue to buy accretively, we needed to find greener pastures. This is why we got involved in the student housing business. At the time, it wasn't well understood and there were few major competitors. However, there weren't too many investment grade assets to buy. To build this business further, we decided to get into the business of lending to developers of these kinds of projects and investing in the equity opportunities of them as well. We got into the third party property management business in 2015. All of these efforts were designed to help us source acquisition opportunities at reasonable prices in non-traditional ways and to continue to drive the economies of scale.

Realities for Start Ups Today

I was fortunate that when I started out in the exempt space that I also had a good amount of personal savings built up so that I could afford to charge reasonable management fees and keep cutting them as we built scale. To be a small, start-up issuer today is harder than it was only a few years ago. While finding an EMD and getting distribution is far easier than it was, earning a living is harder than ever.

The regulatory requirements continue to get higher. Our OM is about 200 pages and our annual reports total about the same. They require a tremendous amount of work and

resources to get done. Every year, we try to make them even better. Given today's low interest rates and yields in general, finding an investment idea that has reasonable risks that you can scale, while not having to charge excessively high fees to make the idea financially viable and to pay you well enough to survive, as an asset manager is no small feat.

A number of years ago, upon the completion of a regular review by one of the regulators, the analyst running the review asked me an unusual question. He liked our business model (a private REIT), but wondered why there were so few of us around. Why weren't there more of us, like in the US? I told him that the managers likely couldn't survive at small scale long enough at reasonable fees to build scale and thus either didn't get off the ground at all or go public to get the fast money.

A small issuer trying to raise \$5 million today faces large upfront costs that impair returns. The fees at a small scale are barely enough to make a living on, so many of the small issuers increase their fees to survive. It's not that they're being greedy or ripping anyone off necessarily. It's just that at small scale, it's hard for both investors and managers to make a reasonable living taking reasonable risks in today's low rate environment. It requires scale and infrastructure. I was able to build those when competition was less stiff and yields were higher such that as competition increased, we were lean, well capitalized and ready.

I'm often asked for advice by real estate entrepreneurs that want to start a private REIT's what the best piece of advice I could give to them would be. I've told them not to bother unless they come with significant financial resources to survive a few years so they could charge reasonable fees. They may have assumed that I told them this because I didn't want competition. Hardly. There is more than enough capital for all the good strategies. Build a good business, and investors will be there.

Capital markets require diversity to be vibrant to serve investors and the economy at large.

None of them had done the math on the size it takes to be profitable as an independent asset manager. To be fair, neither had I because it wasn't my original intention. I was just doing what I loved to do and was prepared to risk my own money on the infrastructure I needed to do so. I sucked on losses for years as an asset manager because I built my infrastructure ahead of the capital, because I saw no responsible alternative. And that infrastructure was expensive and scaled for the size I was headed to and to have the quality I wanted to provide.

When I recently had a conversation with one of my larger EMD's, I was told that they had stopped looking at start-up REIT's or single property limited partnerships. They couldn't justify putting investors into an undiversified structure (like a single property limited partnership), and that with issue costs as high as they are, they had doubts about the returns after costs that would be left for investors or that the fund manufacturer themselves may not be viable. When they risk adjusted the lack of diversification and relatively high costs versus the potential returns, they had to take a pass. I've heard this repeated a few times. During due diligence interviews with bank lead dealers, they spent a lot of time on the financial viability of the asset manager. They wanted to make sure that the asset managers made enough money and had the staffing to run the funds.

Thoughts on the Evolution of the Exempt Market

I think that EMD's are adapting their business models to meet the needs of today's environment. They are becoming increasingly sophisticated and ask excellent questions during due diligence and annual reviews. They are also businesses that understand that regulatory burden is driving up costs and they need to be as lean as possible, while fulfilling their duties. The investment industry has seen so many mid-sized investment dealers sold or closed down. The lessons haven't been lost on EMD's. This likely means that the number

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CENTURION

REAL ESTATE OPPORTUNITIES TRUST

of issuers on their shelves will decline as they focus on larger issuers so they can recoup their compliance costs, run efficiently and provide the highest quality products available.

A number of small and mid-sized deals are now being done more like corporate finance deals by EMD's. Instead of doing an expensive offering memorandum and distributing it retail \$10,000 at a time, many issuers and EMD's are going to bulk investors. Because costs are kept down, the fees are lower for the asset managers but more profitable at the end of the day with both investors and asset managers benefitting with much less financial risk and faster execution. This is particularly so with real estate development deals. Centurion has seen lots of apartment development opportunities come from its EMD's.

Historically, these deals may have been syndicated in a single property limited partnership via an offering memorandum with an EMD. Many today will just be referred by the EMD to an investor like Centurion that can commit quickly to a deal that works, reducing the time to get a deal done and the risk of spending on an offering memorandum before a cent has been raised. I think this is a positive evolution of the exempt market in matching the demand for capital with sources at a reasonable cost at the best possible speed. It is working for us as well as it allows us to focus on our core strengths of operational expertise in apartments, due diligence capabilities, capital access, economies of scale, diversification and the ability and willingness to move quickly to secure attractive opportunities.

With the opening of the retail exempt market in Ontario, I'm confident that the entire exempt industry will continue to grow and evolve in a positive way. Investors want choice and the exempt market is there to provide it, assuming of course that excessive regulations doesn't stifle the industry or make it so expensive to raise capital that it serves neither to help businesses raise capital or investors find alternatives.

The Future of Centurion

Centurion really grew up as a business in the exempt market. We're often asked if we plan to abandon it on the assumption that we've outgrown it. We haven't. While the amount of work and costs to be an issuer in this space has increased, the benefits of being able to focus on the actual business in the medium to long term are attractive. In fact, in the US, regulators are examining whether issuers should only have to do semi-annual or annual reporting. The reasons are, in part, a perception that quarterly reporting is distracting and leads managers to focus too much on the short term rather than the long term, causing them to under invest in their businesses and thus impacting productivity and the growth of the economy at large. Further, in reducing some of the burdens of being a public issuer, this may increase the number of companies willing to be public.

I really love what I do. I love challenges and today's challenging global investment environment is certainly one that requires focus and continual innovation to drive returns and reduce risks. I couldn't be happier.



with GREG ROMUNDT

1 To start off, the most obvious question, with nearly a billion dollars of investor money under management, why have you resisted the call to become publicly listed?

There are a few reasons. The first is that it's not what our investors want. They are looking for diversification away from the stock market. If they wanted to buy a public REIT and take the stock market risk, there are lots of options for them to do so. Second, we have carved out a very nice niche. We are one of the very few seasoned, diversified, large scale private REITs in Canada. We are the only one available via FundServ as far as I know. If an advisor or an investor wants the benefits of a private REIT, we are one of very few compared to if we were public. As a public company, we'd just be an 'also ran'...one of many.

As an entrepreneur, choosing between a crowded public market and a less crowded private one, the choice seems obvious to me. Two, access to capital in the public markets can ebb and flow violently. The market can be closed to you at times. I've found the exempt market to be more stable, and since we are able to accept less cash than we are offered, when we've needed equity, it has been available even when the public markets have been choppy. Third is reporting and compliance requirements. As a public company, you get on the quarterly reporting cycle and have all the extra compliance requirements that entails. As a private company, we have been able to use an annual reporting cycle which I believe has allowed us to stay focused on the long term and actually running the business.

2 In most jurisdictions, those that distribute an investment via an OM now have to provide ongoing audited financial statements. Has regulation in the exempt market evolved to the right point or gone too far?

Providing ongoing audited financial statements is a good thing. This is the bare minimum for the privilege of accessing the capital markets. I think things are headed in the right direction. I think exempt issuers being able to use SEDAR is a good thing. However, it would be better if all jurisdictions worked together on this rather than the piecemeal which exists today. I would say that every year our OM grows a few pages because we get asked to throw in another table, or add other commentary or disclosure. We do it and think we have a very comprehensive OM as a result, but at nearly 200 pages, I question whether more data, commentary or disclosure helps anyone.

GREG ROMUNDT





3 With the legal costs of putting an OM together, due diligence fees to EMDs, sales commissions, etc., do you think it's too expensive to get distribution the exempt market?

Unless you are doing a large offering, it is too expensive. If you are doing a small issue, your marketing and sales costs could easily hit 10% or more of proceeds. As an asset manager, if you have a small vehicle, you likely will either have to overcharge on fees or charge reasonable fees and have the financial resources to survive until you've built your vehicle to scale.

4 Do you think Canada's housing market is due for a correction soon? Is it too hot, in particular in the condo market?

The housing market is way too hot in Toronto and Vancouver. This is speculative excess untied to the performance of the underlying economy. I hope it corrects soon, however, given that I believe rates are not going up for a very long time, this seems unlikely. Further, with population growth, there's tremendous demand for housing and all that is currently affordable are condos. But there is too much foreign hot money. I'm usually a laissez faire capitalist, and I hate taxes but I think we need extra property taxes and land transfer taxes on non-resident owners of residential property to prevent them being used as foreign bank accounts.

5 You wrote a scathing article in our magazine about the hypocrisy of scrutinizing related party EMDs for their conflicts of interest when the banks run unquestioned in this country doing the exact same thing. Do you think we'll ever see that change?

No I don't. The issue still makes me boil. Somehow, best practice for me is to sell my competitors funds. But the banks will never have to sell each other's funds, deposits or mortgages. Imagine McDonalds being required to sell Harvey's hamburgers or the Apple Store having to sell Microsoft PC's. It's preposterous. Banking is a coddled, protected industry in Canada. Compare us to the USA where they have thousands of banks competing for your business. Not here. As Canadians, we've had the oligopoly shoved down our throat like medicine because 'it's good for us.'

As a public company, you get on the quarterly reporting cycle and have all the extra compliance requirements that entails. As a private company, we have been able to use an annual reporting cycle which I believe has allowed us to stay focused on the long term and actually running the business.

6 You recently received \$12.9M of financing on one of your properties for 1.33%. Do you think rates like that are the new norm or bound to go up sooner than later? How material are interest rates to your business model working?

It was the lowest rate on any mortgage that we've ever done. It was for a five year term as well. Rates like these are the new normal. I have been for years calling for rates in Canada to go negative. People thought I was nuts. However, as country after country around the world has seen their rates go negative, this view is becoming more main stream. There are now even countries with negative mortgage rates.

Interest rates are a material part of our business. We are both mortgage investors and mortgage borrowers. Interestingly enough, we now earn more money on our mortgage investments than we pay on our mortgage liabilities.

7 Looking at your apartment portfolio, you're very Ontario centric. Is that simply because you live there or for other reasons?

There are a couple of reasons. Ontario and Quebec have about 70% of the national rental market so the largest opportunities are here. Simply speaking it's also where I live, and where many of my relationships are. Going outside your core requires scale and that's just not always easy to find in a single purchase. For years we focused on Ontario only just to build scale. It was only when we had achieved some scale did we determine that we could start to build in select centres outside Ontario. Almost all of our opportunities there are new construction, originating from our joint venture with developers.

8 For all your successes, you must have had a misstep or two that taught you a valuable lesson. Can you share that with our readers?

I wish there was only one or two. However, I ascribe to Nelson Mandela's saying that "I never lose. I either win or learn". Each misstep is an opportunity for growth and improvement both personally and professionally. I would say that one of the things I learned the hard way was the value of hiring empowered staff. As a business is growing, your resources are taxed to the limit.

To meet this challenge, among other things, you need people that can execute on your strategy. When I started out, I did way too many things myself because I tried to economize. My time was wasted on things that weren't creating value although they did have to get done. It was a false economy. As we've grown, we've hired increasingly talented team members that the business needs in order to grow.

As an entrepreneur, it is hard to 'let go' of key responsibilities and to pay the salaries that those talented individuals command, but in the end, having these people is what allows you to really build a business and takes down your stress level significantly.

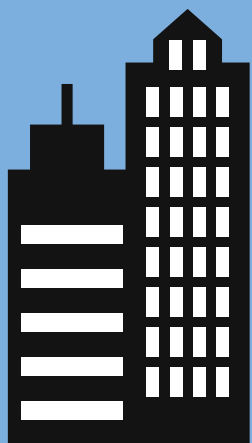


Somehow, best practice for me is to sell my competitors funds. But the banks will never have to sell each other's funds, deposits or mortgages. Imagine McDonalds being required to sell Harvey's hamburgers or the Apple Store having to sell Microsoft PC's. It's preposterous.

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