

GREG ROMUNDT

A derivatives trader doesn't seem to have much in common with a multi-residential property owner, but Greg Romundt says his past definitely helps in his current role as founder and president of Centurion Apartment REIT. Indeed, he feels running a treasury operation at a bank isn't dissimilar to running a REIT, which, after all, is a fund that measures treasuries. His background, he adds, shows up in the design of Centurion's capital structure, how they look at the loan book and how they manage interest rate risk. "As a derivatives trader you're always looking for statistical advantage and so I continue with that in trying to make money in real estate with limited risk and possibly better spreads," he says. "We're always trying to find particular niches to exploit."

The latest niche is student housing, which fits in quite nicely with Centurion's main business buying multi-residential buildings in secondary Ontario markets. But this student housing probably isn't what most people remember: They have theatre rooms, gyms, tanning salons and even jam rooms with built-in speakers — pretty much luxury accommodation by most standards. "Canada is about 10 to 15 years behind the U.S. in the development of purpose-built student housing," Romundt says. "When we think about who lives there, it's students. But who are our tenants? Parents."

Romundt started his career as an interest rate derivatives trader at Citibank after graduating in 1991 from Western University. From there he ran the exotic options desk in New York and Toronto before manning the emerging market derivatives desk for Citibank and then AIG. All told, he spent 12 years in trading and then "retired" to look after the real estate assets he had amassed on the side. "I've never been very much interested in retail investments like mutual funds and one of the restrictions of working in investment banking is that you're virtually stuck investing in either bank deposits, bonds or retail mutual funds because of the conflict of interest," he says. "So I focused on real estate."

The retirement didn't stick so, after casting around for an idea, Romundt decided to make his avocation his vocation, settled on living in Canada and started Centurion in 2003 with his own capital. The properties he owned in Canada went into the company, while he disposed of his international holdings, fortunately before the worldwide recession hit in 2008. Outside investor interest, chiefly from friends and family first, began to grow and in 2006 he opened his first fund, the aforementioned REIT.

But this REIT is a bit different than most. For one thing, it's private and only open to accredited investors, that is, those who have a fair bit of money and presumably know what they're doing, which

"I really don't think interest rates are going anywhere for a really long time. I have consistently said since 2008 that people will be surprised that low rates would be here 10 years and people thought I was nuts. But here we are five years in and we're still talking about another five years. I still think there is a non-zero probability that we have negative rates in Canada."

isn't always the case. "We had some investors exit when rates recently popped because they said bonds are starting to run," he says. "I said, 'You think they're going to 6% or 7%?' It's very difficult to time capital markets and if you sit and wait it out, even for a short time, it becomes very painful if you're not earning something."

His advice is to stay in the apartment business because it has had 27 straight years of positive returns and isn't affected by stock-market volatility. Those dynamics have helped Centurion grow from about \$80 million or so in assets in 2009 to half-a-billion dollars today.

But what really galls Romundt is when people treat all real estate as if it was one entity. Condos aren't houses, and houses aren't commercial buildings. You can have a slump in one that has little or any effect on the other. For example, he points out the condo market is a retail investor market, while apartments, its closest counterpart, is institutional and the money is made through steady cash flows, not a one-time sale. "All the smart money in condos is on the sell side: they're the ones building it and financing it," he says. "Why isn't there a REIT designed to own condominiums? Because the math doesn't bloody well work."

As a result, Romundt isn't particularly worried if the condo market slows down. For one thing, it potentially frees up land and reduces competition for development properties. And while there haven't been many new apartment blocks built in a couple of generations, he sees a renaissance looming to fill a need for affordable housing that condos, even if there is a correction, simply can't meet. "A lot of people call the condo market shadow rental inventory and I've always called BS on that because they're different price points."

