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By John Tenpenny



*(Standing L to R) Brian Athey, John Talano
(Sitting L to R) : Paul Miatello, Rai Sahi*



Rai Sahi, Chairman and CEO of Morguard Corporation, has always preferred to keep a low profile, lest the target of his takeover become wise to his intentions. But since becoming involved in real estate over the past decade, acquisition has been replaced by gradual growth. His last “takeover” involved buying controlling interest of ClubLink Corporation, the largest private owner and operator of golf courses in Canada, in 2007.

That was just the latest piece of corporate intrigue led by Sahi since he gave up his job at Bank of Montreal in 1982 to venture into the world of mergers and acquisitions. Sahi came to Canada in 1971 from the Punjab in India and settled in Montreal where a brother lived.

Along the way, Sahi bought and sold numerous companies, including Paul Martin’s Kingsway Transport Group in 1983, which resulted in a continuing friendship with the

former Prime Minister. He sold it in 1989 for \$70 million

In 1990 he launched his greatest success to that point when he purchased a stake in Acklands Limited, an auto-parts distributor that was hemorrhaging money. Over the next five years Sahi built sales to \$1 billion and acquired and integrated 35 more companies before selling Acklands to W.W. Grainger Inc. for \$400 million in 1996.

Then he turned his attention to real estate and acquired interests in several Canadian public and private real estate companies, which evolved

into Morguard Corporation of which he now owns 46 per cent. Morguard Corporation owns and manages a diversified portfolio of properties worth more than \$9 billion through five principal operating subsidiaries (Morguard Investments, Morguard REIT, Morguard Residential, Morguard Financial and Revenue Properties (US) Inc.), which own or manage a portfolio consisting of office, industrial, retail and multi-residential properties across Canada and the southeastern United States. The portfolio includes approximately 45 million square feet of space, as well as 14,000 apartment units. Morguard Residential owns 7,000 multi-residential units and manages 3,000 units for third party owners and also builds rental projects, mostly in the Greater Toronto Area. Morguard’s US portfolio was acquired in 2006 via the takeover of Sizeler Property Investors Inc., a public real estate investment trust, which owned \$450 million of assets comprised of 2.3 million square feet of retail space and 3,900 apartment units.

Sahi is also the largest shareholder of ClubLink Enterprises Limited, which owns various tourist assets, including the White Pass & Yukon Route railroad, ClubLink Corporation, and he also owns nine car dealerships.

But don’t think for one minute that Sahi is finished. The 2006 purchase of Sizeler is just the beginning of Morguard’s US strategy.

“The interest [in Sizeler] was that it had two classes of assets that we were interested in, the multi-residential and the grocery-anchored retail,” he says. “It was essentially in Florida, Alabama and Louisiana. Also, at the time the Canadian dollar had gone up to around

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94 cents, so we thought it was time to make an investment in the US. And it's still performing well.

"Our view is that there are larger and more opportunities in the US market," he says. "We recently made a multi-residential purchase of over 300 units in West Palm Beach, Florida where the developer had gotten into some financial difficulty. We're focused on the multi-residential side in the US

because of the debt availability."

Paul Miatello, Morguard Corporation's Chief Financial Officer agrees. "There is going to be more distress in the US and we have a very strong balance sheet right now. Rai's entrepreneurial spirit permeates the organization, which dictates that we will look to deploy that capital and create as much value as we can for the company.

"Canada is a relatively small market, so we end up bidding against

the same large companies and pension funds. Also, prices for real estate assets have not decreased in Canada as much as in the US. So our efforts will be focused on those value opportunities south of the border."

Also on the table is a possible new venture for Morguard and the Canadian multi-residential market. "We are exploring the possibility of creating a multi-residential REIT," explains Sahi.

"There seems to be a demand for it in order to access capital and grow. If we were to create one it would include both Canadian and US assets, which would be the first of its kind."

The future may bring more acquisitions, but right now, that's not the path Sahi sees Morguard taking. "We will continue to grow as our clients grow," he says. "In the past we grew through acquisitions, but in the future it will be a gradual growth."

Morguard's US Venture

Of the 34 properties in the US, 15 are multi-residential says Morguard's US Vice-President John Talano, who is responsible for all of the US operations, redevelopment, property management and asset management.

The difference between the Canadian and US portfolios says Talano, who is based in New Orleans, is mainly in the building type. In Canada almost all the properties are high-rises. The opposite is true of Morguard's US assets. "The vast majority of the properties are garden-style walk-ups," says Talano. "Where [Canada] may have 700 units on two acres, we have 700 units on 44 acres.



We have large areas of land that we own, and they are communities within themselves. From an operations strategy perspective, we really, really focus on service and that's how we differentiate ourselves from our competition.

"We put emphasis on first impressions and then follow through. We strive to operate our properties like you're walking into a three-star resort hotel or better. We really try to develop a sense of neighbourhood and community for our residence."

One tactic that was adhered to when making the move south of the border was Morguard's attempt to cluster properties. Miatello says an example of this is not just the clustering of multi-residential properties but also clustering properties across the whole property portfolio.

"We own several multi-residential properties on Thorncliffe Drive Park in East York, which are close to East York Town Centre that Morguard owns as well," he says. "And we leverage the relationship for cross-marketing purposes for example. Clustering is just one more way that we can leverage

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what we have and more specifically there is a huge benefit in terms of having a smaller number of people service a larger number of buildings."

According to Talano, turnover rates in the US are generally higher than Canada. But since the acquisition, the US portfolio's turnover rate has gone from around 70 per cent down to 40 per cent across the portfolio.

"By focusing on service and empathy for our residents and developing that sense of community we've really been able to reduce the turnover rate," he says. "That was the goal straight away from Canada. It is extremely expensive to turn the apartments so for us the best type of resident is one who lives

in our community long term and then invites their friends and family to live there as well."

He also describes the parent company in those terms. "Morguard is very family oriented with more of a responsible work ethic and their systems are far superior to what we had in the past," says Talano. The US multi-residential division recently finished installation of a new Yardi information management system, which is web-based and hosted at the Mississauga head office. "We're now all connected and have access to all the properties and financial information on an as needed basis which is wonderful."

New Development

While construction of new multi-residential buildings is never booming in Toronto, Morguard believes it still makes sense, especially in downtown Toronto, where Morguard Residential has been recently completed one new rental building and has plans for more in the near future.

"We believe in the long-term growth of building rentals in downtown Toronto, not just condos," says Sahi. "All real estate is income-producing, but apartment buildings are the least cyclical of all. You never see a 100 per cent empty apartment building, but I can show you a 100 per cent empty office building."

The Bay Club, located at the corner of Bay and Wellesley was the last high-rise rental project completed by Morguard. It's part of a complex of four buildings, the first three of which were condos. According to Brian Athey, Director, Developments for Morguard Investments, the project has been very successful with an occupancy



rate of 95 per cent. “It’s well suited in that geographic market to a lot of the hospitals,” says Athey. “We have tenants who are doctors, nurses, some lawyers and professionals who are based downtown. It’s an interesting little niche market. It’s also adjacent to provincial government offices and close to Queen’s Park.”

Currently in development is Tweedsmuir, a pair of towers at Spadina and St. Clair, near St. Michael’s College School. On the site are two 1960s-era low-rise buildings that have been mothballed. The plan is to build two 30-storey high-rises, the first one being rental with 350 units and the second being condo (subject to market conditions) with 250 units.

Part of the approval with the City of Toronto included giving tenants of the old buildings first rights to apartments in the new development.

“We have a very carefully defined agreement that spells out how many bachelors, one-bedroom and two-bedroom units, how big they will be and we have an eligibility list of the tenants that were in the original building(s),” says Athey. “We guarantee those tenants the first right to come back in and choose a replacement rental unit once the project is complete. There’s also a very specific formula for what their rents are to be and those rents are in effect guaranteed for those tenants who are interested in returning to that building. It’s been a very long but positive process working with the city and making sure we comply with their requirements.”

Morguard also helped the tenants of the old buildings find new accommodations, even if they don’t return to the new building. “When I inherited the project we had 20 tenants left in the two buildings,” says Athey. “One of the first things I was asked to do was to facilitate in finding a new home for our remaining tenants. We were able to successfully relocate most of those tenants to our existing buildings in mid-town Toronto. We assisted tenants by covering their relocation costs and we were able to hold their rent at their current rate for those moving in to one of our existing buildings.”

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Even the decommissioning and destruction of the old buildings on the Tweedsmuir site will be done with the environment and community in mind. The contractor demolishing the buildings will be required to segregate, sort, separate and recycle 90 per cent of the building materials, says Athey. Before that begins the contents of the 50 furnished suites remaining in the buildings will be donated to Furniture Bank, a charity that will distribute the items to needy families.

Athey says Morguard has plans for another rental project in mid-town Toronto, but is awaiting final approval. The company also has plans to build a low-density townhouse condo project in Mississauga.

It’s the People

For Morguard, creating communities isn’t just about bricks and mortar. It’s about listening to tenants and making sure they know the company is a partner with them in these, as Miatello refers to them, “vertical communities.”


“We do everything we can to preserve and enhance that culture in our properties,” he says. “The uniqueness of our brand comes back to what we do for tenants. Our people aren’t hiding in the leasing office; they’re out getting to know people in the building by name. We bring that hotel mentality into rental accommodation, which is making people feel welcome when they come through the lobby or elevator or parking garage, which is their front door.

“When you’re talking about Morguard you’re really talking about an organization with \$9 billion of real estate behind it and with that comes a lot of things, including leveraging all the capabilities of an organization that

employs 1,200 people.”

Miatello calls it “powerful thinking” and it filters down through the company and it harnesses the brainpower that can be found in the company’s IT, HR, acquisitions research departments. It leads to technology being shared across asset classes. Currently, on the commercial side all of Morguard’s maintenance requests get done through the BlackBerry-based tenant service program Service Link. “We respond to tenant needs in a timely manner and provide an extremely high standard of tenant service,” says Miatello “And we’re looking at rolling that out for the apartment properties. It’s a great tool because all of your work orders become automated.”

When Sahi gathered with some fellow entrepreneurial CEOs, such as Ottawa Senators owner Eugene Melnyk at Ryerson University’s Ted Rogers School of Management to share the secrets of their success with business students, he listed four keys to success: education, a work ethic, the ability to take risk and luck. Asked an example of how luck helped in his own career, Sahi drew enthusiastic applause when he quipped “coming to Canada.” He started out in India, arising at 4 a.m. to milk cows at his family’s dairy farm. Today, “I still get up at 4 a.m.”

Rai Sahi, who has made fortunes in banking, auto parts, trucking and real estate talked to the students about the need for entrepreneurs to continue learning. “I hate to fail, but when it happens you have to step back—ask what caused it and how you can learn from it.” 



Powerful Thinking

In the real estate business, you differentiate yourself by the quality of your thinking. At Morguard we've aligned our thinking around finding opportunities, by knowing how and where to look, then acting decisively.

Morguard is one of Canada's largest, integrated real estate companies with a diversified portfolio of more than \$9 billion in properties owned and under management. We offer real estate services across all major commercial asset classes: office, retail, industrial, and apartment. We operate from a nationwide network of offices in the country's major markets.

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