

Forward Purchase: Innovation in Canada's Luxury Rental Market

The Canadian Multi-Family Perspective: A Push Towards Luxury Renting

Demand for residential real estate in Canada's major markets continues to be driven by the country's growing economy, stable political climate and diverse industry sectors. Housing **affordability** across the country, on the other hand, has **deteriorated** in recent years. On the national level, homeownership costs represent 44% of median household income as at Q4, 2016 driven by Vancouver, British Columbia (85%), Toronto, Ontario (65%) and Victoria, British Columbia (55%), according to recent research published by the Royal Bank of Canada. The pressure on housing prices in major markets such as Toronto and Vancouver has rippling effects on the surrounding region. Markets including Hamilton, Ontario, St. Catharines, Ontario, and Victoria are accordingly experiencing higher than usual affordability-related pressure given their proximity to major markets where affordability has eroded.

The high cost of home ownership in Canada's largest markets has resulted in **increased demand** for rental housing, led by Canada's growing millennial population. The Greater Toronto Area now has a millennial population of over 1.5 million, according to the Toronto Star, with many left with no choice but to rent. Canada Mortgage and Housing Corporation ("CMHC") notes that rental demand in major markets is increasing due to fewer young renters moving to homeownership. Millennials continue to pour into urban centres, where the renter population continues to swell as rents rise and vacancy rates tighten.

New purpose-built apartment rental buildings play a major role in the gentrification of major Canadian cities

Canadian Rental Landscape – Changing Demand

The changing needs of renters in Canada are **simply not met** by the majority of rental housing offered in the market today. Canada's existing rental stock, largely comprised of tired, un-renovated 1960's vintage apartment buildings does not fill the demand for modern, luxurious buildings in areas where Canadians desire to live.

For Canadian renters, there is **significant demand** for high-end rentals with condo-quality finishes, larger units than the continuously shrinking condos, First-class amenities and professional property management are part of the new fundamentals of luxury renting.



The supply of these high-end rentals, traditionally fully renovated older apartment buildings and individual condominium rentals, do not meet the demand from this segment. The vacancy rate of individual condominium units across Canada was 1.9% in 2016 according to CMHC, versus 3.3% for existing older purpose-built rental apartment buildings from approximately 40 years ago, highlighting the demand for high-end finishes and amenities in renovated luxury rentals. The **introduction of newly purpose built apartment buildings** to the market helps to address this demand.

Starlight Investments is a leading privately owned North American real estate asset manager with over 20 years of experience, focusing on investment and active asset management of multi-family and commercial real estate. The company currently manages over \$7.5B of assets on behalf of Public Market Vehicles, Institutional and Family Office Investors. Please visit us at www.starlightinvest.com.

Investing in New Luxury Forward Sales by Starlight Investments

Given the shortage of rental housing throughout Canada and the soaring demand for luxury rentals, Starlight has created a **unique** forward-purchase program to address this problem. This new and **innovative business plan** can be defined as acquiring a purpose built luxury apartment building prior to the completion of its construction at any phase between the first shovel going into the ground and initial occupancy. The plan creates a **firm forward purchase agreement** between developers and Starlight as to design, finishes and occupancy timeline. As an added benefit, this alignment results in shared risk between the parties.

While the Ontario government recently implemented rent controls on new construction, initial lease up of properties is not under rent control, therefore, rents can be set at market rates at the owner's discretion. By aligning pricing to the market conditions, the forward purchase program becomes an attractive long term investment opportunity.

Starlight has established itself as a market leader in this segment, having completed forward-purchase transactions in excess of \$300 million. Starlight has also built a robust pipeline of new high quality, purpose built rental apartment buildings in Ontario at various stages of the development process. In the next 18 months, Starlight has firm commitments in place for another \$200 million of new opportunities and another \$100 million planned thereafter.

Starlight has established itself as a market leader in the forward-purchase segment

How Does The Program Work?

In completing the initial lease up from construction, through its high caliber in-house leasing team, Starlight is able to have control over the tenant base to create a desirable renter mix, thus minimizing vacancy downtime and managing incentives, while providing stable cash flow on a go-forward basis. Starlight is also able to control the design specifications prior to construction including: unit mix, common area design, amenity packages, in-suite finishes and building automation.

Within the current Starlight portfolio, there are a number of properties that exemplify this level of customization on newly built luxury rentals. 140 Main Street West, a 321 unit building in the heart of downtown Hamilton, is one of Starlight's most recent forward-purchased assets. Starlight was able to get involved in the construction process with the developer and outlined the scope of the finishes of the amenities which would appeal to renters seeking luxury apartments. In addition, Starlight was also able to commence pre-leasing of the property a few months prior to closing, through carefully designed model suites, allowing for tenants to move in on a staggered schedule thus reducing the exposure associated to lease-up risk. The property is now Hamilton's premiere rental address, commanding rents well in excess of the area's existing rental stock and occupancy is above 98%.

Why Starlight?

With worsening housing affordability and a growing number of renters seeking high-end, modern and larger apartment units, market conditions have allowed for limited construction of multi-family rental housing in several areas in major markets. Starlight's unique and visionary program not only addresses what renters seek but also creates a long term investment opportunity with attractive returns for investors.

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