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DEALS

Blackstone pushes further into Canadian RE

The New York-based firm's new joint venture with Starlight marks the former's first investment into Canadian multifamily property

Blackstone is continuing its foray into Canada with multifamily property acquisitions across Toronto and Montreal, following up on its recent acquisition of Pure Industrial Real Estate Trust, which opened the door for the firm to make Canadian industrial investments.

The acquisition of six multifamily buildings was made through a joint venture between an affiliate of Blackstone Property Partners – Blackstone's core-plus real estate fund – and Canadian investment firm Starlight Investments. Blackstone financed the JV with capital from the fund while Starlight used capital from its balance sheet and debt. The 746 units in the portfolio are part of a mix of high, mid and low-rise concrete multifamily buildings located in Canadian urban centers. The JV will have a core-plus investment strategy.

The Canadian multifamily investment is similar to Blackstone's partnership with Ivanhoé Cambridge to acquire New York's Peter Cooper Village Stuyvesant Town – the largest apartment rental complex in the US – in 2015.

"A very long-term capital pool suits this asset class well," Blackstone head of real estate Americas Nadeem Meghji said. "Having finished this first transaction, we are optimistic that more opportunities will arise to invest in Canadian rental housing."

The combination of strong population growth, limited housing supply and climbing rents makes the Canadian multifamily market particularly appealing, according to Meghji. It was natural for the JV to target properties in Toronto and Montreal because the two cities benefit from strong employment numbers, said Raj Mehta, Starlight's global head of private capital and partnerships. Toronto and Montreal are also the two most populous metropolitan areas in Canada, with 5.9 million and 4.1 million residents, respectively, according to the 2016 census.

However, newly built multifamily units have remained limited because land price increases and rent control in cities like Toronto incentivize developers to build condominiums rather than apartment units, according to Mehta.

"To make the economics for a developer work, they prefer to build condominiums where each unit can be sold individually at a market price versus selling one building to one buyer," he explained. "Overall, this has dampened the new supply for apartments and further created a market dislocation between supply and demand in Canada."

Although the rent control affecting many multifamily units in Canada can pose a challenge, Mehta believes that the JV can nonetheless benefit from rental growth because of the relatively high tenant turnover. In rent controlled apartments in Toronto and Vancouver, he explained, a tenant stays an average of five years, but the length of stay is shorter in other Canadian cities.

"When the unit comes available, you can then set the rent at whatever level because it falls outside of rent control," Mehta said. "This is where landlords have been getting double digit rent growth."

Another challenge posed by investing in Canadian multifamily real estate is the fact that approximately 90 percent of the two million units in the market are held by individuals or families, which means that institutions typically have difficulty accessing product and portfolios. However, institutional players with better access to funding have the opportunity to renovate and upgrade the apartments to the benefit of tenants. Moreover, Starlight and Blackstone's JV will be able to source deals because of Starlight's relationships with major vendors and knowledge of the market, according to Mehta.

These small renovations can include putting in stainless steel appliances or replacing countertops, which add value and justify raising rents. By targeting B+ properties that are not newly built and are acquired at a discount to replacement cost, the JV can offer a product to tenants more affordable than a newly built asset, Meghji said.

Demand for multifamily units remains strong and vacancy rates are at 1 percent, he added, noting that home prices in

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Canada – particularly in Toronto – have risen significantly, which can make renting much more compelling for residents.

Starlight and its predecessor company TransGlobe have been in operation since 1995 and have so far invested in Canadian and US multifamily properties with capital raised through funds, joint ventures and club deals.

Starlight and Blackstone did not disclose specific return targets for the JV.