

FUNDS

The secret to outperforming the real estate market



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When Jeffery Olin and Frank Mayer left their cushy Bay Street jobs to start Vision Capital Corp., they knew they could be in for a rough couple of years.

It was 2007, and although the subprime problems in the United States were painfully evident there wasn't a sense that practically every real estate investment trust in North America would be hammered – whether they deserved it or not.

But the Opportunity Fund Limited Partnership founders felt that if they were able to go both long and short on the market, focus on Canadian real estate and concentrate on publicly traded equity and debt securities, they would be able to outperform the market.

They were right – since its inception on July 2, 2008, Vision Opportunity Fund is up 24.6 per cent on a total return basis. The S&P/TSX lost 18.7 per cent in the same time, while the S&P/TSX capped real estate index slipped 14.9 per cent.

As investors try to figure out whether the resurgent Canadian real estate recovery is for real, we asked the managers about their industry.

Why did you decide to focus on real estate in your fund?

OLIN: Canada had twelve years of surpluses going into the recession, we have a good banking system. The real estate fundamentals in Canada are dramatically better than they are in the United States. We have single-digit vacancy rates versus double digits in the United States. Supply and demand is in balance – we have no material new supply aside from Toronto and Calgary office markets. The housing markets are strong, even as they are extremely weak in the United States.

How did you post returns that were so much better than your benchmarks?

OLIN: We've put significant portfolio weight toward purchasing debt and retractable preferred shares at a substantial discount to their maturity or retraction values. They've



Vision Capital Corp., founded by Frank Mayer and Jeffery Olin, has posted higher returns than Canadian real estate benchmarks by focusing on publicly traded equity and debt securities. JENNIFER ROBERTS FOR THE GLOBE AND MAIL

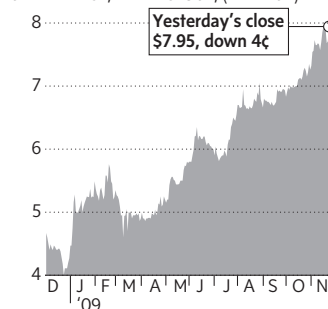
generated double-digit cash yields and significant capital gains as prices moved toward maturity values, and offered less risk and more safety because the investments were higher up the capital structure and senior to common shares. We've also put significant portfolio weight into the multi-family residential sector [apartments], which offers attractive risk-adjusted returns because of low vacancy rates, stable rents, minimal new supply and abundant access to guaranteed financing from the Canadian Mortgage and Housing Corp. – even at the height of the credit crisis.

Do you actually buy properties? Or just companies that buy property?

OLIN: We have the flexibility to invest directly in real estate, but there are a lot of funds for that. What we do – a focus on publicly traded securities – we are the only ones doing in Canada believe it or not – though there are lots in the U.S. We're taking concentrated positions in our best ideas, operating long and short, and we found we can get equity like returns with debt securities with a lot less risk. And we are active investors, we don't seek to be hostile. We marry our real estate market experience with our capital markets experience to add value.

Killam Properties

SHARE PRICE, DAILY CLOSE, (KMP-TSX)



SOURCE: THOMSON DATASTREAM

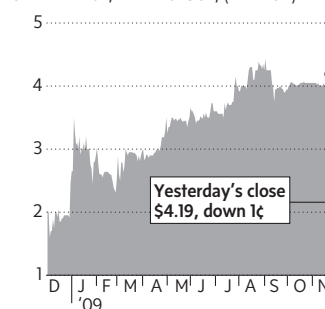
What are the benefits of buying public companies instead of hard assets?

MAYER: It's much easier to manoeuvre when you buy companies. If you don't like the way a market is going, you can make a trade and redistribute your holdings. Let's say you think Western Canada apartment rentals will be soft for the next few years. If you owned buildings, you'd have to sell them and deal with everything that goes with that. Or, you own units and you sell them the same day and redeploy your capital in a company that focuses on Eastern Canada.

What is the REIT market like in Canada? Where are the opportunities?

Parkbridge Lifestyle Communities

SHARE PRICE, DAILY CLOSE, (PRK-TSX)

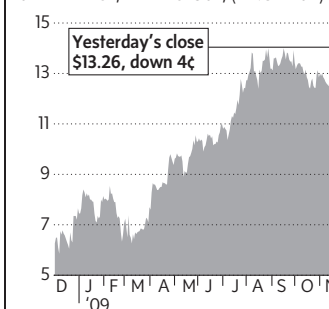


SOURCE: THOMSON DATASTREAM

MAYER: We've seen throughout our careers that the market for Canadian real estate securities is not efficient. Either the prices are too low relative to where they should be based on publicly known information or they are too high. And it goes counter to the theory that perfect markets should have perfect prices all the time. One can take advantage of that over time. We believe those inefficiencies exist because analysts such as I used to follow a limited number of securities. The fact of the matter is each follows 10 to 25, but there's a lot of overlap. So, because of that they only follow about half of the publicly traded names out there. The others are almost totally ignored. Those ignored names in many

H&R REIT

SHARE PRICE, DAILY CLOSE, (HR.UN-TSX)



SOURCE: THOMSON DATASTREAM

cases become very viable attractive stories, and investors can make some money.

So what do investors look for when examining some of these companies?

MAYER: Competent management, a growth plan and the ability to grow their distribution. And they shouldn't be paying out more than they are bringing in.

OLIN: We look for aligned management that owns units, they aren't benefiting from fees on external management or quasi internal management. How do we operate our portfolio? We have an eight million dollar investment – it's my kid's college fund. We can't mess this up.

The founders

FRANK MAYER

CHAIRMAN, VISION CAPITAL CORPORATION

HOME TOWN: Toronto (born in U.K.)

EDUCATION: Bachelor of Commerce from Concordia University and Masters in Arts (Economics) from University of Toronto.

CAREER: Real estate analyst and senior executive for 35 years with UBS Securities; HSBC Securities and Desjardins Securities.

JEFFREY OLIN

PRESIDENT AND CEO, VISION CAPITAL CORPORATION

HOME TOWN: Toronto

EDUCATION: Bachelor of Commerce from the University of Toronto, and MBA from the Kellogg Graduate School at Northwestern University in Chicago.

CAREER: 10 years in corporate real estate: with Olympia & York Developments Limited and Vice President with Bramalea Limited in Dallas, Texas and Toronto.

15 Years in Investment banking: Managing Director with HSBC Securities; Head of Investment Banking, and Managing Partner, Ontario with Desjardins Securities.