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BEAUX PROPERTIES

*Spanning generations
and geography*



Market Report
Update

As the Fog Clears:
Benjamin Tal on
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*From Left to Right:
Roy Birnboim, Owner; Jason Birnboim, President*



BEAUX PROPERTIES

Spanning generations and geography

There are many successful family owned and operated companies, and then there is Beaux Properties. This real estate company spans three generations and 60 years of operation, and has experienced growth at each stage. Along the way, it has amassed long-term holdings of prime real estate through careful acquisition and development. Beaux Properties' portfolio consists of several thousand multi-residential units, and it has a growing interest in commercial centres in a number of markets across the country.



From Left to Right:

Peter Persechini, Chief Operating Officer; Roy Birnboim, Owner; Jason Birnboim, President

Background

Menashe (Max) and Sophie Birnboim immigrated to Canada from Poland after World War II and settled in Winnipeg to raise a family. Max was a Talmudic scholar who earned a living as a private Hebrew teacher. He was also good with his hands, and this skill enabled him to supplement his family's income by doing property maintenance. The Birnboims saved their money to purchase a property that was in dire need of repair; Max then restored and sold the property for a modest profit.

The Birnboims used their profits to launch Birn Investments for the purpose of purchasing rental properties. These early investments targeted single-family homes and row housing (terraces) that needed extensive repairs. They followed this investment strategy until 1962, when they developed a 75-suite apartment building near the University of Manitoba, which became known as the Arizona Plaza.

By this time, the Birnboims' youngest son, Roy, who grew up in the family business, had graduated as a Chartered Accountant and was working toward an MBA from the University of Western Ontario. When

Sophie had a stroke, Max became her primary caregiver, which left a significant void in the Birnboims' finances. Roy decided to become more involved in his family's business and, under Max's counsel, he managed and grew the real estate portfolio.

While Roy was a partner in his accounting firm, he took on Birn Investments as a primary client. This enabled him to contribute to the accounting firm while continuing to manage and grow the Birnboims' real estate portfolio. It also allowed him to cultivate various investment and development opportunities from within his firm's existing networks. Roy eventually came to realize that Class "A" and "B" properties were more profitable investments over the long term, so he gradually liquidated his family's portfolio of single-family homes and row housing.

Sophie passed away in 1974; four years later, Roy sold his interest in the accounting practice and moved his young family to Toronto. Shortly thereafter, Max followed his son to Toronto, and Roy sold the family's Winnipeg portfolio. He then launched an entity that eventually became Beaux Properties International Inc., initially focusing on

purchasing multi-residential properties. Over the first six years of business, the company bought and sold a number of apartment buildings in different parts of the city, which enabled Roy to get a better feel for Toronto's neighbourhoods and the market. In 1984, Beaux Properties purchased its first true prime apartment building at 66 Broadway Avenue, located in the highly desirable Yonge and Eglinton area. This property remains the company's flagship rental apartment building to this day.

"My approach to growth can be summed up as follows: If you take it slower, you'll get there faster," said Roy Birnboim, Owner. "This philosophy has enabled me to withstand every major real estate market correction, expand our company's holdings and provide a superior return on our invested capital."

starting out by sourcing purchasing opportunities and structuring deals. He later moved into operations to oversee property management. Jason led Beaux Properties' transition beyond multi-residential properties by expanding geographically and diversifying its asset base.

"We've since expanded into commercial development and investment, which is providing greater opportunities for risk-adjusted returns," said Jason L.S. Birnboim, President. "We've expanded throughout Southern Ontario and have purchased prime rental properties in BC, Calgary and New York."

Purchasing and growth philosophy

Throughout the company's history, Beaux Properties has focused on buying, managing and developing high-quality assets, from multi-

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Roy's son, Jason, also grew up in the business, learning everything there was to know about buying and managing prime multi-residential rental properties from the ground up. He went on to earn a law degree from Touro College, a Master of Laws degree from Fordham University and a Masters of Science in Real Estate from New York University. After being called to the Bar in New York State, Jason became a practicing attorney at a prestigious Wall Street law firm, focusing on real estate finance and commercial mortgage loan securitization for a number of institutional clients.

While working in New York, Jason helped Beaux Properties to acquire under contract the 725-unit Lexington Hotel in Manhattan. This speculative transaction led to swapping the hotel for the 425-unit Executive Plaza Hotel in Chicago. In 2002, Jason decided to join the family business,

residential rental properties to commercial developments. Through all three generations, the Birnboims have dedicated themselves to disciplined analysis and investment parameters to achieve solid risk-adjusted returns. Multi-residential rental properties have been, and likely always will be, a core element in the company's growth.

"When buying in dense, high barrier to entry markets, high-rise rental apartment buildings are one of the safest investments around," said Jason. "Every month, you know how much cash is coming in, and you can control your cash flow. While it is not quite as liquid as cash, financing is robust for these assets and you can find a buyer even during market interruptions. But you have to truly understand, care for and love these assets so that you can stay on top of expenses, which will lead to safe and regular returns."

During the 1980s, Beaux Properties was successful in making a significant number of high-quality purchases as deals on rental properties were more readily available. The company increased its investment stake in the rental housing sector, and steadily grew its cash flow, which enabled ownership to realize solid returns. In the 1990s, Beaux Properties was able to use its leverage and capitalize on market corrections to make conservative investments and expand its portfolio.

"We typically hold onto income-producing assets, and when we sell properties, it is likely the result of receiving unsolicited offers that are nearly impossible to refuse," said Jason. "When new multi-residential acquisitions no longer fit our primary investment criteria, we began to pursue other opportunities, such as purchasing an interest in a stable commercial plaza in BC. Every significant investment decision is based on knowing how much equity we have to invest and when we would be able to monetize the investment either through refinancing a stabilized asset or an outright sale."

Beaux Properties also provides mortgage and related loans through its lending arm, BP Capital. This niche lending product targets condominium corporations that require capital for unbudgeted major repairs and large capital expenditures. It also provides bridge loans and funding for partnered projects and niche lending opportunities.

Focus on property management

Beaux Properties self-manages its Toronto-based multi-residential rental properties. The company engages third-party property management firms for its properties outside the GTA including BC, Alberta, New York and the Bahamas, but actively oversees much of the operations. On the commercial side, Beaux Properties manages some of its assets while its joint venture partners manage other holdings.

Beaux Properties places great importance in its property management because this function

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Roy Birnboim, Owner

Beaux Properties

DEVELOPMENTS



Beaux Properties has a successful history of purchasing and self-managing multi-unit residential rental properties. Over the years, numerous factors have made it difficult for the company to continue following this investment strategy, including compression of capitalization rates, relaxation of rent control legislation and reduced inventory of high quality rental properties.



“ We also assess the deal based on who brings it to us, as that person will likely become Beaux Properties’ long-term partner. We’ll look at their track record, whether we’ve worked with them before and if our interests are aligned.”

Beaux Properties decided to shift its goals to acquiring real estate through development with joint venture partners. In 2002, the company partnered with Quaestus Corporation to develop its first commercial property: a 57,000 square foot retail commercial plaza located in a busy Ottawa neighbourhood.

“This was our first investment in this particular area, and it has been profitable on both a cash flow basis and from a return on equity perspective,” said Jason L.S. Birnboim, President, Beaux Properties. “We were able to get back most of our investment within a year, and it continues to provide steady cash flow for us and our partner.”

Beaux Properties determined that investing in commercial developments would provide superior returns with manageable risk and satisfy its long-term strategy of building its portfolio through conservative growth. The company evaluates every development opportunity by identifying how much equity is required and how it fits within its investment guidelines and structure. It also considers the particular sector and how each location can be repositioned for higher use, density or rents, as well as the potential income stream.

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said Jason. “We’ll look at their track record, whether we’ve worked with them before and if our interests are aligned.”

While Beaux Properties has found that commercial developments provide steady risk-adjusted returns on its investments, these projects provide very different challenges than purchasing and managing multi-unit residential rental properties. Zoning considerations have provided a host of challenges, and have required the company to develop a higher comfort level with a project before committing funds. Beaux Properties and its joint venture partners have learned to work with various levels of government on zoning issues, appealing to the Ontario Municipal Board when necessary to get projects approved and overcoming concerns from neighbours about new developments.

Beaux Properties typically provides most of the equity for developments. The company and the lender will only proceed when they have obtained substantial pre-leasing by credit-quality tenants or pre-sales by qualified purchasers. This approach meets Beaux Properties’ conservative criteria and has enabled it to obtain attractive construction financing and permanent financing once a property is stabilized.



“We have found that investing in commercial retail development projects has a very high upside from a risk and cash flow perspective with relatively manageable downside,” said Jason. “While we cannot ever mitigate market risk, we have thus far always been able to engineer a positive cash flow stream, even if it means extending a project’s timeframe or topping up the equity. As such, we are cautiously excited about the potential for growth in this part of our business.”

Beaux Properties has been involved with numerous significant development projects and properties over the years, on its own and with different partners. While its most recent projects are relatively diverse, the company adheres to a model that has enabled it to successfully grow its portfolio of quality investments. Beaux Properties’ most recent developments (detailed below) include a power retail centre in a former rubber factory in the west end of Toronto, a condo development in a prime midtown area of Toronto and a commercial retail property in Ottawa.

Rubber Factory, Etobicoke

Beaux Properties and its joint venture partner, Quaestus Corporation, had been interested in purchasing this particular

property for several years. It is one of the last undeveloped nodes near Sherway Gardens, a popular retail mall in the west end of Toronto, and well located near complementary retail centres and two highways. The purchase and subsequent development had been held up by the city’s plan to build a tunnel through the property to increase traffic flow. As a result of various environmental assessment and cost studies, the city decided against pursuing this option. The joint venture negotiated a deal to purchase the property from the original vendor, completing the deal in May.

Beaux Properties and Quaestus Corporation are repositioning the site into a 90,000 square foot power centre with ten retail units, which is expected to open in summer 2015. The site has several key tenants in place, including Michaels, DSW Designer Shoe Warehouse and Pier 1 Imports Canada, with others lined up to fill the remaining units. The property also has longer-term prospects for intensification and high-rise development.

“This is one of our most exciting commercial development projects to date,” said Jason. “We believe that Quaestus has envisioned something really great here, as this development will have a positive impact on the area, in addition to the jobs that will be created.”



Beaux Properties and Quaestus Corporation are pursuing an environmentally responsible path in the development of the property. The joint venture is tearing down half the building and reusing the steel frame, roof structure and concrete slab from the remainder to construct the new retail development. It is also reconfiguring the building to support retail-friendly loading bays and support structures. A new façade will cover the older part of the building, and the existing structure will be integrated into the new building. Upgrades to the mechanical and electrical systems will contribute to making the power centre more energy efficient.

“While the property will not be LEED Gold certified, we believe that it is still very environmentally friendly,” said Barry Godfrey, President, Quaestus Corporation. “In addition to reducing construction costs and development charges, we are very proud of the fact that we will be reusing the existing structure and much of the building materials, which reduces the project’s environmental footprint.”

101 Erskine Avenue, Toronto

In the mid-2000s, Beaux Properties invested as a lender in several condominium development projects that provided attractive returns. As a result, ownership decided to pursue its own condominium project on surplus land next to its flagship multi-unit rental property at 66 Broadway Avenue.

Originally purchased in 1984, this highly desirable plot of land is located in the Yonge and Eglinton area of midtown Toronto. Beaux Properties hired an architect to research development opportunities and determine if it was feasible to build a condominium on the property. Since Toronto city council was pushing for more intensification in core areas, the company decided to pursue full rezoning for the area and come up with design ideas for this project.

After completing much of the rezoning requirements, Beaux Properties began searching for an experienced condominium developer as a joint venture partner. The company wanted to ensure that the new building would not negatively impact its adjacent multi-unit residential rental building. After doing its research and due diligence, and adding an industry veteran to its team for an advisory role, Beaux Properties entered into a partnership with Tridel for this particular project.

“It’s important to trust your partner in any development, and it was especially true for this project, which is why we chose to work with Tridel on this one,” said Jason. “Tridel is a trusted name in the condo industry. It brings tremendous strengths to the table, such as in-house expertise, decades of experience in the industry, and a proprietary sales and marketing system.”

Beaux Properties and Tridel have started construction and are expected to complete the development known as 101 Erskine Avenue in fall 2016. The 32-storey building will consist



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of 410 condominium suites and 10 townhomes with integrated parking, and will be built to LEED standards. Amenities will include an outdoor pool, yoga and fitness areas, and attractive landscaping. The property will also feature a linear park area with public access, which was integral to the city’s plans for this neighbourhood. Beaux Properties is also renovating the adjacent rental property with updated landscaping, a new outdoor pool and common area improvements.

700 Hunt Club Road, Ottawa

In 2013, Beaux Properties and Quaestus Corporation purchased four acres of land on Hunt Club Road, located in close proximity to one of its existing plazas and near the Ottawa airport. After having the site rezoned for commercial and retail development, the joint venture sold a portion of the land to a local developer who planned to construct an apartment building in that neighbourhood. Beaux Properties and Quaestus Corporation then used the funds, as well as construction loan financing, to begin development of a commercial retail building, with expected completion in the fall of 2014.

The Hunt Club Road property will include two restaurant pads and 18 individual retail units, some of which will be combined by tenants to former larger retail units. The restaurant pads were pre-leased to A&W Restaurants and Lone Star Texas Grill, whose interest in the location helped

to drive the project. The joint venture has leased or sold most of the remaining retail units to a number of commercial services providers.

“The building is being condo-ized, so to speak, as we have had a number of local businesses that have interest in purchasing units in our building,” said Barry. “At present, we have a bank, a mortgage broker and a cell phone retailer, among other businesses, that have leased or purchased units. It’s a very popular area, and we know that this property will do well.”

Conclusion

Beaux Properties has many other projects and deals in the works, and plans to continue pursuing development projects. The company intends to focus on additional intensification opportunities in Toronto, and has an eye toward expansion throughout urban locations in Ontario, Alberta and British Columbia. As Beaux Properties continues to expand and diversify, it expects that more institutional partnerships will emerge.

“We recently formed a joint venture partnership with a Vancouver-based developer,” said Jason. “We are optimistic about establishing a presence in that market as well by sticking to our core beliefs and values of conservative growth in high quality locations.” ■

“Beaux Properties understands that there are no tenants in apartment buildings – they are customers and they should be treated as such. They are responsible for making buildings profitable, as they pay the rent. When you respect your tenants as the customers who drive your business, you learn to treat them properly and do what is necessary to keep them in your buildings.”

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directly correlates to the preservation of the value of its assets. The company believes in providing services that are commensurate with the quality of the property, as top-quality properties requires top-quality service and amenities. While Beaux Properties deals primarily in A-level properties, it is more liberal in establishing relative rents.

“We do not want to be at the top end of the market or leasing spectrum,” said Roy. “We position our units around the middle with respect to rents. This enables us to keep vacancy and bad debt levels at or below one per cent. While we cannot control the market when it gets harder or softer, we can control some things to ensure that we maintain full buildings.”

When tenants vacate an apartment unit, the site staff always go in to ensure that the apartment is “lease ready.” They will clean the unit and invest in whatever is needed to bring the unit up to its standards, such as making minor repairs, painting walls and refinishing the floors. Beaux Properties also performs extensive suite upgrades in many of its buildings, sometimes spending more than \$20,000 to do so. When new tenants inquire about available units, they are given the option of choosing either a lease-ready or upgraded unit. More often than not, tenants will choose the latter option because Beaux Properties ensures that all rents are competitively priced.

“Beaux Properties understands that there are no tenants in apartment buildings – they are customers and they should be treated as such,” said Marvin Sadowski, Property Management Consultant. “They are responsible for making buildings profitable, as they pay the rent. When

you respect your tenants as the customers who drive your business, you learn to treat them properly and do what is necessary to keep them in your buildings.”

Paying attention to maintenance

Beaux Properties maintains building and unit standards by being proactive and staying on top of potential issues so that repair costs do not get out of hand. The company also ensures that it diligently addresses staff or tenant issues. Building managers are at the forefront of problems and know what is going on in their buildings. While it must still adhere to its buildings’ budgets, the company is willing to take action to address problems when necessary. Management understands that it cannot satisfy every tenant all the time, but they can address issues in a timely manner.

Beaux Properties follows a conservative yet hands-on approach to the management of its multi-residential rental properties. It engages in capital work when necessary to provide quality properties with the necessary amenities to bring in appropriate rents. The company understands the systems that make buildings work, and so do its building managers. Every member of Beaux Properties is keenly aware that there is more to property management than answering phones and collecting rent.

Maintenance is key to Beaux Properties’ conservative approach to growing its portfolio. The company focuses on taking care of its assets, such as doing capital upgrades to a building’s underground garage or changing elevators. Energy conservation is a central component of the corporate



*Peter Persechini,
Chief Operating Officer*

strategy, which includes installing new energy-efficient windows in all buildings, upgrading boilers, heating and cooling systems, and replacing lighting when feasible. The company has also instituted water-saving programs in all of its buildings.

"Beaux Properties has succeeded by putting its money back into the core of its business, which is its multi-residential rental properties," said Peter Persechini, Chief Operating Officer. "Re-investing in properties has helped the company to maintain low vacancy rates whether the rental market is strong or weak. We get positive feedback from our tenants and the trades because we don't cut corners on maintenance."

Beaux Properties pays close attention to the training and education of its staff. The company ensures that staff understand all aspects of what is required to maintain buildings and their various components. It provides in-house training to ensure that employees know how to deal with various issues, which includes employing conservation techniques and new technologies to minimize utility costs. Field managers also visit all buildings in the portfolio to show building managers how to handle different situations. Many of Beaux Properties' building managers have been with the organization for more than 10 years, which gives them a solid understanding of the properties and tenants. The company will also screen and do background checks on all trades and service providers to ensure that they meet its high standards before entrusting them to work on its properties.

"A number of companies in our industry have moved away from on-site building staff, employing a roving handyman and cleaners for their buildings," said Peter. "All of our building managers are on site and one call away for tenants. It's a more traditional approach to property management, and it enables us to provide tenants with a higher quality of service and more attention. We get a lot of positive feedback from our tenants, so we know that it works."

“Whether I’m doing something new or repetitive, I believe that it’s always possible to learn something new. It is important to not go into things blindly, and recognize and appreciate other perspectives. Solicit other people’s opinions, but make your own decisions based on your objectives.”

Increasing involvement in development

The Birnboims first entered the development world when they were living in Winnipeg. During the 1960s, they built a multi-residential rental property and had to rent to students because the initial lease period was difficult, and rental living was not as prevalent at the time. Later, one of Roy’s private clients approached him about developing a restaurant for another client. He found, purchased and developed the building for the restaurant, and then leased it to the proprietor for 10 years.

“Several years before we entered the Toronto market, an architect approached me about an opportunity to get involved in developing a social housing project,” said Roy. “By spending only \$50, I was able to secure the necessary property and submit a proposal, and it turned into a profitable venture. These initial successful experiences planted the seeds that paved the way to a more active involvement in commercial development.”

Development is becoming a more significant aspect of Beaux Properties’ business. Since the company takes a conservative approach to investing, it mitigates as much risk as possible prior to committing to a project by conducting a lot of research and investigation into zoning considerations, financing environment, investment hurdles analysis and other key areas. Beaux Properties typically forms partnerships with experienced developers for any significant projects, whether the project involves multi-unit residential, condominium or commercial developments. One key strategy includes purchasing greenfield sites and turning them into retail centres. (See sidebar on Beaux Properties’ most recent developments.)

Lessons learned

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into things blindly, and recognize and appreciate other perspectives. Solicit other people’s opinions, but make your own decisions based on your objectives.”

Jason: “I’ve learned the most from deals that did not go well, even though we still made money due to our staying power and perseverance. I’ve also learned that small deals take as much time to complete as large deals. We have a finite amount of time to do everything, so we want to make sure that we do things that are large and impactful.”

Future plans

Now into its third generation of family ownership, Beaux Properties will continue on the same path that has enabled it to reach its current level of success. The company plans to pursue opportunities to intensify its portfolio of multi-residential rental properties and other investments in the Greater Toronto Area. Expansion plans are in place for additional purchases in Western Canada, particularly Calgary and Vancouver. Beaux Properties also maintains holdings in the Caribbean and is actively developing a luxury boutique hotel on Rose Island in the Bahamas.

“We intend to expand our investment and development horizon where possible, and will do so by taking on partnerships for larger transactions and forming additional joint ventures,” said Jason. “My grandparents and my parents established a very solid foundation for the business, a tremendous framework for making decisions on key opportunities, and a strong social conscience. We also plan to keep having fun and enjoy what we’re doing.” **RHB**