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Calgary's Bob Dhillon reinvents the apartment-building business

By Nathan Vanderklippe
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When others look at apartment buildings, they see flaking paint, dented drywall, stained appliances. Calgary real estate wunderkind Bob Dhillon sees art

Bob Dhillon can tell you about the time he found a dead body in an apartment suite.

He can tell you about the times he got drunk, slept in his car and got up with the sun to buy foreclosed buildings. He can tell you about the torrent of deal-making he accomplished while he was lying in a hospital bed, stricken with cancer.

But what he'd really like everyone to know is that the reason he did all these things is because he doesn't look at apartment buildings-or, frankly, any real estate-like you or I do. We see flaking paint. Dented drywall. Stained appliances. We see, well, a dead body.

He sees something else. "I look at it as art," he says. "I'm an artist at work."

Dhillon's chosen medium-buying decades-old buildings by the dozen, giving them a thorough scrubbing, then tossing them back on the market, with a rent increase anywhere from 20% to 100%-is hardly Picasso stuff. But as the relentlessly energetic CEO and largest shareholder of Calgary's Mainstreet Equity Corp., he may be Canada's most singular property magnate.

And Dhillon would like us all to acknowledge his accomplishment; he's a man whose desire for recognition may be even stronger than his desire for profit. It's for that reason he so happily draws from his quiver of metaphors. Take your pick-depending on the day, he will tell you that he is a miner of gold. A polisher of diamonds. Or...

"I take an ugly building and put a lot of lipstick on it. I'm like a plastic surgeon," he proclaims. "Give it a little liposuction. Some breast implants. I make this old thing look pretty."

Bob Dhillon is a lot of things. He is a deal junkie. He is a salsa dancer and a yoga fanatic. He is the owner of a Caribbean island, and sells chunks of it to the likes of Jarome Iginla. Although he's middle-aged, he wears a dental retainer-something his parents couldn't manage to get for him when he was a child. He's now making up for lost time. Dhillon is, in his words, a "street rat" who grew up as a Sikh living in the wrong part of Calgary before learning that he had a particular talent for real estate.

For Dhillon, the prettification process isn't about how a building looks. It's what it's worth. Or, more properly, it's what he's made it worth, often by adding a few touches, like laminate floors or, more recently, stainless steel appliances and cabinets he's buying direct from China, at a deep discount. The beauty, for him, is envisioning a building's potential where others see only its problems.

"I've lost money on gold deals. I've lost money on stock deals. I've lost money on technology deals. I've lost money on everything but real estate," he says. "I got this intuition. I know it sounds bizarre."

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Dhillon works, by his count, 80 hours a week. He reads books five at a time "because I get bored if I read one all the way through." He carries two phones, one so he can talk and one so he can bang out e-mails at the same time. He is, at any given moment, negotiating on, inspecting or buying dozens of buildings. Mainstreet started 2011 with a bit less than 7,000 apartment units across Western Canada-primarily in Calgary, Edmonton, Saskatoon and Surrey, B.C.-after buying 510 in the previous three months. By mid-year, Dhillon, who owns about 40% of the company and personally inspects each new purchase, had made conditional offers on another 800 units. Mainstreet will end the year, he predicts, with more than 8,000.

For all its growth-which Dhillon has achieved almost entirely organically-Mainstreet remains a small player in Canada's publicly traded real estate space. It has never been a market favourite, consistently trading at a share price discount relative to its peers, which have curried favour by spinning out lucrative dividends while Dhillon spurned dividends to focus on expansion. It does not help matters that the company has lost money every year from 2004 to 2010, the amounts ranging from $1.6 million to $6.1 million.

Certainly the market downturn was not kind. After an explosive ride that saw its shares stage a hockey-stick rally in 2006 and 2007 amid major growth, cracks began to show in early 2008. Mainstreet's stock was kicked in the teeth, falling from a near-$20 high in 2007 to $3.80. Property values tumbled. One of its lead lenders pulled financing. At one point, with nearly half of his properties under renovation, Dhillon had trouble getting enough labour to keep up with the glut of buildings he was buying.

His reliance on cranking up rent also created pain. From 2007 to 2008, Mainstreet's vacancy rates shot up from 8.5% to more than 22%. In Edmonton, 33% of units sat empty. In just a few months in 2008, tumbling real estate markets knocked $95 million from the value of the Mainstreet portfolio.

Investors got nervous. Amid the rout in markets and the credit crunch, Dhillon's competitors, the REITs, fell by half or two-thirds. But Mainstreet cratered by 80%.

Dhillon took a breather. Realizing he could turn a greater profit by buying his own shares rather than more buildings, he snapped up nearly a third of the Mainstreet float, at an average price of $6.35. It turned out to be a savvy move. Five months after the shares dropped below $6, they were back up again, and have climbed steadily since. By late September, they had climbed back over $17. Dhillon is an indefatigable optimist: Numbers his staff have crunched project a share-price double within a year.

And Dhillon is on a tear again. His units are filling up-vacancy is down to 11%. And he's buying up a storm.

Whether it's in Canada, or in U.S. markets he is now eyeing, Dhillon is back to doing what he knows best, which is consolidating the "mid-market" space in rental apartments. It's a niche he defines as any building with fewer than 100 units, and it's one he dominates, especially in his home base of Western Canada. Most small apartment buildings are owned by families or small partnerships-perhaps a cluster of lawyers or doctors. Sometimes they run out of patience with their sideline; other times they run out of cash.

Dhillon is happy to swoop in. He renovates and ratchets up the rent. Then he takes out a mortgage on the building's newly increased value-a sum that typically exceeds what he's put into it-and goes on to buy another building. He has grown Mainstreet's portfolio by 27 times with almost no additional capital injections. It's a feat even his competitors acknowledge, especially since the mid-market is considered one of real estate's most difficult corners.

"It's a really, really tough business-probably the toughest sector to manage because of [the buildings'] size," says Sam Kolias, CEO of Boardwalk REIT, which is also based in Calgary. Smaller is harder because even a few empty units in a small building can add up to a substantial vacancy rate. Worse, the competition is fierce. "Your biggest competitors are individual, focused owners who take care of the apartments themselves," Kolias says. Sweat equity "is the toughest equity to compete with."

Dhillon, though, thrives on the challenge. He buys strategically, examining maps and housing statistics and development permits like tea leaves. He likes to say that he got into Saskatoon before it became Saskaboom. "I saw cheaper real estate than Afghanistan. I saw cheaper real estate than Africa. I saw commodities-potash, uranium, gold, oil, gas," he says. "A lot of people don't have the eye for it. That's an intangible the capital markets will never give me credit for."

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The passenger side mirror on Dhillon's silver Mercedes convertible is broken. A man with a swastika tattoo recently saw Dhillon at the wheel, walked over, kicked in the mirror, then ran away.

"I said, 'God bless you,'" Dhillon says of the racist episode. "That was the first time in a long time."

The shattered glass is a reminder that Dhillon has spent much of his life as an outsider. His family comes from the Punjab in India, but he was born in Japan, where his father, a trader, had moved from Hong Kong after the Second World War to cash in on postwar growth. Dhillon spent his early years in Osaka; Japanese is his first language. But when he was still young, his parents moved to Liberia, which was a trading gateway to West Africa. Dhillon spent summers and holidays in Liberia, but most of his time was at boarding school in India. It wasn't fun.

"It was elitist, snooty rich Indian kids in the foothills of the Himalayas. I was a misfit. I was a Japanese kid going to boarding school in India-a different world, different foods, different environment. I hated it."

But it taught him a few things. How to be a stranger in a foreign land. How to fight. "It made you tough. It made you resilient," he says.

In 1980, when the military took power in a coup, his parents fled Liberia. In Africa, they had been members of the business class. In Canada, they had nothing. Dhillon, however, never forgot the taste of wealth. "If you've never had money, it's not that bad. If you had it and you lost it, it's a little bit rougher," he says.

Dhillon started working soon after his family arrived in Canada. He delivered papers. He logged shifts in a pasta factory, cutting ravioli. He tried to follow in his parents' trading footsteps, hopping on jets to sell Tabasco sauce in South Asia and East Africa.

He was 19 when he bought his first two houses in Calgary. The pair cost him $15,000. He paid others to fix them up-he's always been the finance guy, never the handyman-and then he put up For Sale signs. He netted $18,000. It was a revelation. "A container of Tabasco which I was distributing was making me X amount of dollars. But flipping a house made me 100 times more," he says.

Real estate became a narcotic. Dhillon graduated to apartment buildings. He specialized in foreclosed buildings, which at the time could be purchased from the Canada Mortgage and Housing Corp. on a first-come, first-served basis. He would stay out late partying, sleep in his car outside the CMHC office, get up early and buy. He once found a corpse in a building he was inspecting. But the place was a good deal, so he bought it anyway. Even being diagnosed with cancer-it happened more than a decade ago, but he is discreet about his private life, and even today won't say what type-didn't slow him down.

"I had a cellular phone and was sitting in the bed. I had these IVs in me, I'm going through chemotherapy and I'm doing deals. It was a great time," he says. "It was the most money I ever made flipping during that era."

That era was soon to end, terminated by another revelation. Flipping property was certainly producing flashes of cash-but Dhillon realized that if he upgraded buildings and rented them out, he could guarantee himself long-term income, and use that income to keep growing.

Out of that epiphany came Mainstreet, which Dhillon took public in 1998, boasting a grand total of 272 units that he had bought himself. The offering didn't raise much money by today's standards. But it didn't matter. He had found a business that others wanted a piece of. And he had found an early dose of respect. "I'm a kid in his 20s, I get a million bucks thrown at me and I'm listed-as an immigrant guy!" he says.

"It's not about money," he adds. "It's about a brown guy making it in a white guy's world."

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It's nearing the end of a spring workday at Vintage Chophouse, one of Calgary's snobbier steak places. Dhillon walks in and orders green tea, his staple, from a waitress who calls him by his first name. He has to run to a board meeting in a few minutes. First, though, he has news to share with a reporter. This has been a major day. GMP Securities has published an initial report on Mainstreet Equity. It is positive, and his stock has exploded. On a typical day, fewer than 20,000 Mainstreet shares change hands; this day saw 426,000. It is a record. "And this is just the beginning," Dhillon says. "We haven't even started the honeymoon yet. This is the first date."

Dhillon is especially pleased that GMP, an investment bank that is heavily involved in mining and energy, is interested. As much as he spins a variety of metaphors for his specialty, Dhillon thinks the GMP endorsement points to the most apt parallel. He has long considered his growth-oriented business more akin to resource extraction than the standard Canadian real estate model, which involves the dividend-spewing REIT sector that Dhillon has no qualms about disparaging. "Let's face it, it's boring, boring, boring," he says. "The guys behind the suits there are boring investment bankers who talk to boring portfolio managers who are looking for their 4% yield."

But history suggests boring has one major perk: People like it. Based on an appraisal of Mainstreet's net asset value that he commissioned, Dhillon says the company trades at 50 cents on the dollar. Analysts suggest the discount is smaller-perhaps nearer 20%. Either way, it's a far cry from the valuations on the REITs that Dhillon so dislikes. They, on average, trade 5% to 15% above net asset value.

There are several reasons for this, says Jimmy Shan, the GMP analyst who wrote the report. Mainstreet is a "very illiquid stock," in part because Dhillon holds so much and is reluctant to sell any for fear that doing so will make it look like he's lost faith. Mainstreet is also small-the market cap of Boardwalk REIT, for example, is 14 times larger.

And, finally, there is the dividend. Those that play real estate tend to want yield. Dhillon has never liked the idea. He has excelled at growth, and it would cramp his ambitions to give away money. Shan feels Dhillon would be smart to eventually launch a modest dividend. For now, though, he thinks the Mainstreet strategy makes a good deal of sense. There are risks: Mainstreet's average vacancy rate now sits at 11%, which is partly because Dhillon is fixing up so many buildings. And it's tough to compete on rent when the past decade has brought a swell of condos, many of which are now being rented.

Still, Shan likes the Mainstreet story. "To me, if you're buying into Mainstreet, you're buying into Bob. He's the classic entrepreneur," says Shan, who describes Dhillon as "a very shrewd investor who knows his markets very well." He points to Dhillon's early entry into a number of markets-not just Saskatoon, but also Edmonton and Surrey-and his decision to buy back shares in the midst of the market crunch, a move that has paid off handsomely for shareholders. "He's a good capital allocator, and I think will over time create good returns for shareholders," Shan says.

It is an analysis of his company that echoes the arguments Dhillon himself makes. He has waited a long time to hear someone else repeat it. He talks often about feeling like he hasn't made it. Just a few days earlier, he had suggested that "I really won't know I've made it until, I guess, some Bay Street analyst tells me."

Now, finishing his tea, he grows momentarily quiet as he thinks about the GMP report. He doesn't know it now, but Mainstreet is also soon to be added to the Toronto Stock Exchange index.

"Finally," he says, "somebody is getting me."

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CALGARY, WHERE THE MAVERICKS ROAM FREE

Murray Edwards
Vice-chairman of Canadian Natural Resources Ltd., one of the country's top energy companies, with vast holdings here and around the world. A reclusive billionaire, but, nonetheless, one of the most interesting oil patch characters, in part due to his high-profile holdings, whether it be Rocky Mountain ski hills or the Calgary Flames.

JR Shaw
Built an empire out of wires and cable programming, gobbling up smaller players by the bucketful and consolidating TV service across the West. In the process, he created a giant in the Canadian telecommunications establishment.

Rick George
Poured billions into oil sands when the industry saw it as a fruitless money pit. Today, Suncor has some of the best land in the oil sands, and the rest of the world is spending tens of billions to catch up.

Mike Rose
Bet early on the kind of "tight gas" reserves that have become the backbone of the gas industry. Sold his company, Duvernay, to Shell for $5.9 billion just before gas prices cratered.

Nancy Southern
Inherited a family leadership mantle, and now oversees Atco Group's sprawling energy-based conglomerate, flying around the world to check on Atco's work in Australia, for example. Has helped build out the company into new lines of work, proving that those who inherit a family firm don't always fritter away the previous generations' success.

Don Gray
Made a fortune on natural gas when natural gas was still capable of delivering fortunes. Perhaps best known for being bluntly provocative: He's even pilloried some oil and gas companies as Ponzi schemes.