

Bigger Assets, Better Leverage

How two brothers' quest to live rent-free led to the founding of the Skyline Group of Companies, a business now worth more than \$1.6 billion

BY JULIE SCHAEFFER

It all started in 1991, when University of Guelph student Jason Castellán and his brother, Martin, were just trying to make a little extra money through property ownership. Twenty-three years later, Castellán is CEO of the Skyline Group of Companies, which oversees three real estate investment trusts (REITs) valued at more than \$1.6 billion. Here, in numbers, is how he and his partners made it happen. →

2 brothers

The Castelláns started slowly. After renting for one semester in university, they bought a small house with their father's help, living in the basement while renting the upstairs to three roommates. Then, when the house across the street came up for sale, they decided to repeat the process.

52 houses

Seeing the benefits of an income stream, the brothers decided to broaden their scope and teamed up with another friend, Roy Jason Ashdown. Together, they did some "market research," which wasn't hard, given their university's nightlife. "Going to keg parties from Thursday to Sunday, we saw a lot of houses," Castellán says. "And the first thing we'd ask was, 'How much do you pay in rent, and what does it include?'"

Within three years, the trio had purchased 52 houses with money provided by family and friends. "Marty, Roy, and I were the sweat; other people were the equity," Castellán says.

1999

In 1997, the trio purchased a small building, which showed them the benefits of bigger assets. "There's a lot of leverage," Castellán says. "You only have to mow one lawn, fix one roof, repair one furnace, and you can hire on-site staff to do it." The problem was, bigger buildings required bigger down payments, and the

friend-and-family equity pool was exhausted. "When you've tapped all of your uncles and aunts and in-laws for down payments, what do you do?" Castellán says.

Realizing they'd need to bring on more and more investors, the Castelláns and Ashdown officially created Skyline in a one-bedroom (and no-bathroom) office in 1999. In the early days, raising capital was challenging: "People didn't know our name, so they had no reason to trust us," Castellán says.

16 holding companies

The Castelláns and Ashdown persevered, however, and from 1999 to 2005, Skyline's business model involved syndicating apartments. "We created a holding company that had a specific group of investors and properties and then did another and another and another, ending up with 16 companies in 2005," Castellán says.

The problem was, Skyline couldn't take money from one holding company to improve another or buy a new property across town. So, in 2006, Skyline amalgamated the



Named one of Canada's 40 most promising entrepreneurs by the prestigious Ivey Business School, CEO Jason Castellan spends his days working conceptually, which is why he turns to manual labour in his free time. Castellan lives on a farm in rural Guelph, ON, and enjoys spending his weekends chopping wood and tending to the animals with his kids. "It keeps me grounded," he says.

holding companies and launched an REIT, which allowed it to add buildings and investors seamlessly without creating stand-alone corporations. “It gave us the platform to grow indefinitely,” Castellan says, and grow the apartment REIT did—from \$83 million in 2006 to \$1.1 billion in 2014.

The downturn of 2008

Skyline sailed through the housing-market downturn that began around 2008. “We braced ourselves for challenging times, but the opposite occurred,” Castellan says. “On the property side, there was no impact because the housing market tanking in the United States didn’t mean our tenants in Ontario stopped paying rent; the housing-market meltdown was a Wall Street issue, and our business is Main Street. And on the investor side, the impact was positive. People were rattled by the volatility in the public markets, and we were an alternative option.”

2 more REITs

Building on the success of its apartment REIT, Skyline added commercial and retail REITs in 2012 and 2013, respectively. Today, the three Skyline REITs have more than \$1.6 billion in assets under management, and Castellan expects that number to reach \$2 billion in 2015. Despite its success, however, the company won’t be going public anytime soon. “Staying private was one of the smartest decisions we’ve ever made,” Castellan says. “We are approached regularly by investment bankers wanting to take us public so [that] they can raise equity for us, but we don’t need their equity. We have a waiting list of our own investors wanting to get in.”



500 staff and growing

Since the three-man show that the Castellan brothers and Ashdown started with in 1999, Skyline has ballooned to more than 500 staff, and it’s still expanding. “Not one of us alone could have achieved the success we have had so far,” Castellan says. “It will undoubtedly accelerate as we continue to add valuable people to our existing team, who will be propelled themselves by the culture and infrastructure that is Skyline.” ■

The executive management team in the boardroom of Skyline’s head office, in downtown Guelph, ON. From left to right: Martin Castellan, cofounder and chief administrative officer; Wayne Byrd, CFO; Roy Jason Ashdown, cofounder and COO; Jason Castellan (seated), cofounder and CEO; and Matthew Organ, president of Skyline Living.