

Is Now the Time to Bail Out of Boardwalk REIT?

Description

Over the last year real estate investment trusts (REITs) have performed quite strongly, but the **Boardwalk REIT** ([TSX:BEI.UN](#)) has been hammered of late. After performing strongly through the first half of 2014, its share price has plunged by 9% over the last six months. The key reason for this has been growing concern among investors about the direction of the Canadian economy and housing market because of the rout in crude. With industry insiders claiming there is more bad news ahead, should investors exit Boardwalk before it declines any further?

So what?

Boardwalk's key asset is its national portfolio of rental properties, although the majority of those properties (57%) are located in Alberta, whose economic growth is dependent upon the oil industry.

The rout in crude that now sees oil prices at levels not experienced since early 2010 has dealt a significant blow to the growth prospects of Alberta's economy and created concerns about a faltering Canadian economy. This has already seen the Bank of Canada reduce interest rates to minimize the impact of the rout in oil on the economy.

Nonetheless, with oil prices so low the majority of oil companies have slashed their capital budgets and cut expenses in order to sustain their operations in the difficult operating environment we are witnessing. It has also seen investment in the energy patch dry up, with companies reluctant to invest until there are signs of oil prices rebounding.

This is set to trigger a wide range of layoffs and will cause Alberta's economic growth to falter.

Already this is having an impact on Alberta's housing market, with the average house price falling by 4% over the six months since the rout in crude began. This doesn't bode well for the value of Boardwalk's assets, but because it is primarily engaged in the rental of properties to generate revenue, it should have little direct financial impact on its operations.

The key problem is that layoffs and declining economic activity will cause rental vacancy rates to rise and rents to fall as demand for rental properties declines. Boardwalk is already feeling the impact of this with its overall occupancy rate having fallen. The greatest decline is in Fort McMurray, the heart of one of Canada's oil production hubs.

Now what?

Any significant decline in occupancy and rents will hit Boardwalk's earnings hard and I don't expect the company to report stellar earnings for 2015 as the rout in oil bites deeper. I believe now is the time for investors to take profits and exit Boardwalk.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BEI.UN (Boardwalk Real Estate Investment Trust)

Category

1. Investing

Date

2025/08/24

Date Created

2015/02/13

Author

mattdsmith

default watermark

default watermark