



Which Should You Own: Boardwalk REIT or Canadian Apartment Properties REIT?

Description

If you're anything like me, you're worrying about a bubble in Canadian housing.

Every time I take a look at the numbers — especially from Toronto or Vancouver — I immediately start to get nervous. Metrics like the price-to-income ratio and the price-to-rent ratio are both at record highs, and are seemingly only propped up by low interest rates and market sentiment. As we all know, the latter of those two factors is a fickle thing. One minute the market can be fine, the next everyone can be stampeding to the exits.

Just look at the Calgary market so far in 2015. Active listings have surged, sales are down considerably, prices are flat at best, and houses are languishing on the market for a long time, at least compared to recent history. If the energy sector doesn't immediately bounce back, the housing market in the city could be in real trouble.

Investors looking to make a bet on the bursting of Canada's real estate bubble can do so in a couple of ways. Shorting the banks is the obvious choice, but shorting is a risky game. Instead, investors can go long some of Canada's largest apartment landlords. Renters will avoid buying in a declining market, which should create demand for apartments.

But which apartment REIT should you choose? Let's take a closer look at both **Boardwalk REIT** ([TSX:BEI.UN](#)) and **Canadian Apartment Properties REIT** ([TSX:CAR.UN](#)).

Geographic reach

One of the reasons why Boardwalk has sold off so aggressively is because it's seen as a proxy to Alberta's economy. Approximately 60% of its properties are located in Alberta, the majority of which are in Calgary. The Alberta market has been a great place to be for the last few years, but that may be coming to an end.

Meanwhile, Canadian Apartment Properties (CAPREIT) has just 2,100 of its more than 35,000 apartments in the province. The majority of its portfolio is located in Ontario, a province which could

actually benefit from the decrease in crude. CAPREIT also has some 6,300 mobile home pads rented out, but only 415 of them are located in Alberta.

If you're concerned about Alberta, CAPREIT is a great alternative to Boardwalk.

Operations

Both companies have done a great job with operations, albeit with slightly different strategies.

Boardwalk has been reluctant to expand over the last few years, unwilling to pay the price needed to acquire buildings in a low interest rate world. The company spent money improving its units instead, attempting to attract a higher rent. It has been working, but the slowdown in Alberta could throw a wrench into those plans.

CAPREIT has been a growth story over the last few years, acquiring its mobile home portfolio in 2012. This has led to a nice bump in funds from operations, which has essentially doubled since 2010 to \$1.67 per share. The occupancy rate at the end of 2014 was 97.9%, which is just a little lower than Boardwalk, which recently reported an occupancy rate of greater than 99%.

It appears likely that Boardwalk's occupancy rate will drop. The only question is whether it'll be a small decrease or a much larger one.

Dividends

Both companies pay terrific dividends, and both are easily covered by income from operations.

CAPREIT paid investors a dividend of \$1.18 per share in 2014, while it earned \$1.67 per share in funds from operations. That puts the company's payout ratio at just a little more than 70%, giving it plenty of excess to put towards the debt.

Boardwalk has an even sweeter payout ratio. Through the first nine months of 2014, the company's adjusted funds from operations came to \$2.29 per share, while the dividend came out to \$1.53 per share. That's a payout ratio of just 67%.

But investors are paying a premium for Boardwalk's superior payout ratio. The company's dividend yield is 3.3%, while CAPREIT is giving investors a 4.4% yield.

Although Boardwalk is likely to be a solid choice as well, investors aren't getting much of a discount to compensate for the risks associated with Alberta. For that reason, I'd stick with Canadian Apartment Properties REIT.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

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2. TSX:CAR.UN (Canadian Apartment Properties Real Estate Investment Trust)

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