



## Northern Property REIT Yields 8.5%. Should You Buy it or Avoid it?

### Description

Of the 72% of unitholders that voted, close to 88% of the votes were in favour of **Northern Property REIT's** (TSX:NPR.UN) acquisition of **True North Apartment REIT Trust** (TSX:TN.UN) and other multi-family real estate assets from Starlight Investments Ltd.

If all continues to go well, the proposed transactions are expected to close around October 30, 2015. At that time, Northern Property REIT will officially change its name to Northview Apartment Real Estate Investment Trust and will be listed under the proposed symbol of NVU.UN on the Toronto Stock Exchange.

### Northern Property is trading at a 26-32% discount

If you bought any Northern Property units in the past year, you're likely to be in the red. The shares are 33% below its 52-week high and 1% above its 52-week low. However, unitholders shouldn't panic.

The REIT's book value is above \$26. So, it trades at a price-to-book ratio of 0.7 today, indicating a discount of 26%. Using the funds-from-operations metric, historically, it trades at a normal price-to-funds-from-operations ratio (P/FFO) of 11.6, but it is trading at a P/FFO of under eight today. This implies the shares are priced at a discount of over 32%.

On the other hand, True North's book value is \$9.7 per unit, indicating the shares have close to a 23% discount.

### The results of the transactions

Once the transactions are completed, Northern Property will be the third-largest publicly traded multi-family REIT in Canada. It will increase the stock liquidity for unitholders.

The completion of the transactions will diversify Northern Property's property assets mainly in the provinces of Ontario, New Brunswick, and Nova Scotia, where it didn't own any properties before. Northern Property will own over 24,300 multi-family suites across eight provinces and two territories, creating a more diversified portfolio.

## **Dividend**

Today, Northern Property's payout ratio is around 70%. After the transactions, it will remain around that level. So, its current 8.5% yield remains sustainable.

Northern Property's management has a history of paying increasing dividends. From 2002 to 2014, over 12 years, the REIT has never cut its distribution and even increased it eight times.

## **Tax on the income**

REITs pay out distributions that are unlike dividends. Distributions can consist of other income, capital gains, foreign non-business income, and return of capital. Other income and foreign non-business income are taxed at your marginal tax rate, while capital gains are taxed at half your marginal tax rate.

So, to avoid any headaches when reporting taxes, buy and hold REIT units in a TFSA or an RRSP. However, the return of capital portion of the distribution is tax deferred. So, it may be worth the hassle to hold REITs with a high return of capital in a non-registered account.

Of course, each investor will need to look at their own situation. For instance, if you have room in your TFSA, it doesn't make sense to hold investments in a non-registered account to be exposed to taxation.

## **In conclusion**

Northern Property is diversifying away from resource-rich locations. Its high distribution looks sustainable with a payout ratio of 70%. On top of that, management has steadily increased the distribution over time. So, the REIT's 8.5% yield seems pretty safe.

## **CATEGORY**

1. Dividend Stocks
2. Investing

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