Income Investors: Should You Buy Boardwalk REIT or Canadian Apartment Properties REIT?

Description

If you're looking to invest in apartments in Canada, there are a number of choices.

You could borrow aggressively and buy a condo or two and, after a number of years, move up to owning a whole building. There are countless small apartment buildings out there that are owned by small-time landlords.

But that requires a lot of work. You have to be available to collect rent, fix minor issues, and break up the inevitable parties. Sure, you could outsource all that to a property manager, but small-time landlords end up paying the most for those services. That's just how the industry goes.

Or investors could invest in one of the many apartment REITs. These companies have the advantage of being big enough to make professional management a reasonable expense. They're also truly passive vehicles for investors; all someone needs to do is sit back, relax, and collect their dividends.

Boardwalk REIT (TSX:BEI.UN) and **Canadian Apartment Properties REIT** (TSX:CAR.UN) are Canada's two largest apartment owners. Which should you choose for your portfolio?

The skinny

Both Boardwalk and Canadian Apartment Properties (CAP REIT) are big businesses.

Let's start with Boardwalk. It owns more than 34,000 apartments across Canada, with 57% located in Alberta. It also has a significant presence in Saskatchewan, Ontario, and Quebec. Shares are down more than 25% over the last year because of fears about Alberta's overall economy. While occupancy remains high and funds from operations is up compared with last year, investors are still concerned that the general weakness of the province will affect Boardwalk.

CAP REIT is much more focused on eastern Canada. Fifty-five percent of its portfolio of 35,694 apartments is located in Ontario, with an additional 17% located in Quebec. Alberta makes up just 7% of the portfolio. As a result of this concentration in these areas, CAP REIT's shares have outperformed

Boardwalk's, increasing by 7.5% over the last year.

CAP REIT also owns more than 6,200 mobile home land lease sites in 30 manufactured home communities. These communities have become more attractive to home owners as the price of land continues to skyrocket across Canada.

Valuation

Let's take a look at both companies from a price-to-book-value perspective and a price-to-funds-from-operations perspective.

Boardwalk is quite cheap when looking at it from a book-value perspective. The current book value is more than $70 per share, much higher than the current $53.20 share price. Boardwalk also has a stellar balance sheet, with net debt coming in at just 35.1% of assets. Most of Canada's other REITs are around 50% debt-to-assets.

Boardwalk is also cheap on an earnings basis. The company is on pace to generate $3.58 per share in funds from operations in 2015, which puts shares at an earnings multiple of just 14.9. While that's more expensive than many of the office REITs, keep in mind that Boardwalk has traded at much higher valuations in the past.

CAP REIT also has a solid balance sheet. Shares currently trade at $26.90 each, while book value is $28.33. Its debt-to-assets ratio comes in at 44%, which only looks bad next to Boardwalk's. When measured against other REITs, that's quite good.

CAP REIT is on pace to generate $1.67 per share in funds from operations, putting it at an earnings multiple of 16.1. While that is higher than Boardwalk's, its relatively light exposure to Alberta warrants it.

Dividends

Both these stocks pay attractive dividends. CAP REIT currently yields 4.5%, while Boardwalk yields 3.8%.

But an attractive dividend is worth nothing if it isn't sustainable. With Boardwalk's share price declining so much, some investors might be thinking the dividend isn't safe.

I sure think it's safe. The company earned $1.79 per share in funds from operations in the first six months of the year, while paying out only $1.02 per share in dividends. That's a payout ratio of just 57%, which is one of the lowest in the REIT sector.

CAP REIT's payout ratio is higher, but not by a concerning amount. It earned $0.836 per share over the first six months of 2015, while paying out $0.61 per share in dividends. That's a payout ratio of just 74%.

Both Boardwalk and CAP REIT are great companies trading at fair prices. Dividend investors would do well buying either one, but I think I prefer Boardwalk simply because I like buying cheap assets.

CATEGORY

1. Dividend Stocks

2. Investing

TICKERS GLOBAL

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

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