Should You Buy Canadian Apartment Properties REIT for Residential Rent?

Description

After **Canadian Apartment Properties REIT** (TSX:CAR.UN) fell more than 16% from its 52-week high of $30 to $25, is it finally time to buy the real estate investment trust (REIT) to get rental income?

First, let's see if it's the kind of business you want to own.

The business

Canadian Apartment Properties is a growth-oriented residential REIT with interests in apartment buildings, townhouses, and land-lease communities that are located in or near major urban centres across Canada.

Canadian Apartment Properties's efficient operations allowed it to increase its suite count 46% from 2010 to 2014, while only increasing head count by 14%.

Additionally, the REIT has maintained an industry-leading, high occupancy rate and average monthly rent. Recently, it maintained occupancy rates above 98% in both 2014 and 2015.

Assets

The REIT has interests in about 36,000 apartment and townhouse suites, and it has over 6,200 land-lease sites across 30 manufactured home communities. Its residential suites include ones that are manufactured housing communities (MHC)(15% of suites), ones that are luxurious (33%), mid-tier (46%), or affordable (6%).

Geographically, 55% of its suites are in Ontario, 17% are in Quebec, 8% are in British Columbia, 7% are in Alberta, 6% are in New Brunswick, 4% are in Nova Scotia, 2% are in Prince Edward Island, and 1% are in Saskatchewan.

Dividend

Canadian Apartment Properties has a long history of paying out stable distributions. For 18 years the

REIT has paid monthly distributions that it has increased 12 times over that period. It last increased it by 3.4% in May 2015.

At under $25, it yields 4.9%. The annual payout of $1.22 per unit looks safe as the REIT's payout ratio is around 70%. Its high occupancy rate also increases the safety of its distributions.

Valuation

For the past decade, Canadian Apartment Properties normally trades around a price-to-funds-from-operations ratio (P/FFO) of 14.3. The pullback only brought the shares down to a P/FFO of 14.8. So, the REIT is not exactly cheap, but it's in the fair valuation range.

Tax on income

If you're buying REIT units in a TFSA or an RRSP, you do not need to worry about the rest of this section. However, if you want to learn about a REIT's tax-advantaged nature, read on.

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.

On the other hand, the return of capital portion reduces your adjusted cost basis. This means that that portion is tax deferred until you sell your units or until your adjusted cost basis turns negative. So, if you buy REIT units in a non-registered account, you'll need to track the change in the adjusted cost basis. The T3 that you'll receive will help you figure out the new adjusted cost basis.

In conclusion

If you're looking for stable rental income from residential properties, you should consider Canadian Apartment Properties. It maintains a high occupancy rate and has little exposure to resource provinces. So, its distributions should remain stable as they have in the last 18 years.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

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