Allied Properties Real Estate Investment: a Quality REIT With a 4.7% Yield

Description

Real estate investment trusts (REITs) offer an easy way for anyone to invest in real estate and receive monthly income. Simply buy units of the REITs that you like on the stock exchange as you would buy a stock.

By focusing on quality REITs, investors can easier hold on to them for monthly income. Here is a quality REIT worth a look.

Allied Properties Real Estate Investment (TSX:AP.UN) had its initial public offering in 2003. It has since expanded to own about 146 office properties spanning 10.5 million square feet.

Rent diversification

Geographically, its net operating income is diversified across Canada. Central Canada contributes 60%, eastern Canada contributes 22%, and western Canada contributes 18%.

Its top 10 tenants contribute 20.4% of rental revenue. There's little concentration risk with the largest tenant contributing 3.2% of rental revenue.

Growth

Allied Properties drives growth by acquisitions. It has pipelines in development until 2020. In 2015 it completed five properties, of which one is co-owned.

From 2007 to 2014 its funds from operations (FFO) per unit grew at a compound annual growth rate (CAGR) of 3.4%.

Distribution growth

From 2003 to 2009 distributions grew at a CAGR of 6.3%. Although the REIT froze distributions from 2009 to 2011, it has started increasing distributions since then. From 2011 to 2014 distributions grew at a CAGR of 2.3%. Specifically, in the last two years its distribution increased by 3.6% and 3%, respectively.

On September 30, its adjusted FFO payout ratio is 81.4%, which gives a margin of safety for its distribution and potential room to grow.

Valuation

On September 30, its net asset value was $32.83 per unit. It increased by 8.4% from the same period last year. Although its shares retreated 24% from a 52-week high of $41, the quality REIT is actually fairly valued.

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.

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

Quality comes at a price. However, you can buy units of this quality office REIT at fair value today. Allied Properties offers an above-average yield of 4.7% at about $31 today. Its distribution is also likely to grow 2-3% per year unless something like the financial crisis occurs again. If you buy it in a TFSA, you can get monthly income tax free.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:AP.UN (Allied Properties Real Estate Investment Trust)

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