Quality REITs With 4% Yields

Description

If you are building a dividend portfolio, real estate investment trusts (REITs) will give you exposure to the real estate market and rental income. It can be lucrative to invest in real estate. You can get price appreciation over the long term and earn a stable monthly income.

Canadian Apartment Properties REIT (TSX:CAR.UN) and **Canadian REIT** (TSX:REF.UN) are quality REITs you can count on for monthly income with yields of 4.2-4.5%. These REITs are managed well, own properties in good locations, and earn stable rents.

Canadian Apartment Properties REIT

Canadian Apartment Properties owns a portfolio of residential properties in or near major urban areas across Canada. At the end of the third quarter, it had interests in 40,332 apartment and townhouse suites and 6,285 land lease sites across 30 manufactured home communities.

Most notably, the REIT has little exposure to Alberta: 50% of its portfolio is in Ontario, 25% is in Quebec, 9% is in British Columbia, and only 6% is in Alberta. Its portfolio is also balanced with 14% in manufactured housing communities, 33% is luxurious, 46% is mid-tier, and 7% is categorized as affordable.

The REIT is fully internalized with a dedicated team that contributed to a strong performance in the third quarter. Same property net operating income (NOI) rose 3.3%, as did normalized funds from operations (NFFO) per unit. Its NFFO payout ratio of 70.7% and its portfolio occupancy of 98% keep its yield safe.

Canadian REIT

Canadian REIT has been managed well since day one. It had its initial public offering in 1993. From 1994 to 2014, its FFO grew at a rate of 8% and its cash distributions grew at a rate of 5.7%.

As of the end of September, it accumulated 187 properties with 25 million square feet of gross leasable area, and it was developing 11 properties. Total assets are worth about $5.5 billion.

At the end of September, Canadian REIT’s assets were diversified as follows: 55% of its NOI came from retail properties, 23% came from industrial properties, and 22% came from office properties.

Geographically, 38% of NOI came from Alberta, 27% came from Ontario, 13% came from the Atlantic region, 11% came from Quebec, and 8% came from British Columbia. Of the 38% from Alberta, only 26% of NOI was from office properties.

Since 2000 Canadian REIT has consistently maintained an occupancy rate of 94-97%. At the end of September, its occupancy rate was 95%. The REIT’s top 10 tenants contribute 22.4% of revenue. **Canadian Tire** is its top tenant, representing 7.4% of revenue.

Quality comes at a price

In the past 10 years, Canadian Apartment Properties traded at a normal multiple of 14.1. Just looking at the past five-year period, Canadian Apartment Properties traded at a normal multiple of 14.6. Its multiple expansion signals the REIT is growing. However, at $26.90, Canadian Apartment Properties is trading at a multiple of 16. So, its share price has run ahead of the REIT.

In the past decade, Canadian REIT traded at a normal multiple of 13.8. At $42.50, it is trading at a multiple of 14. So, it’s fully valued.

Conclusion

A fairer price to pay would be about $25 for Canadian Apartment Properties. It may be warranted to buy a small position in Canadian REIT at full valuation now if you want to add a quality REIT to your portfolio today.

REITs pay out distributions that are unlike dividends. Interested investors should consult their tax advisors to find out the most appropriate account to invest in.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

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

Category

1. Dividend Stocks
2. Investing

Tags

1. Editor's Choice

Date
2025/08/21
Date Created
2015/12/22
Author
kayng