



3 Cheap REITs to Make You Rich

Description

Undervalued real estate investment trusts (REITs) are great for building wealth. Not only do you get safe, above-average yields generated primarily from rental income, but you also expect your shares to appreciate in price when the value of the underlying assets is realized.

American Hotel Income Properties REIT LP ([TSX:HOT.UN](#)), **Morguard North American Residential REIT** ([TSX:MRG.UN](#)), and **Slate Office REIT** ([TSX:SOT.UN](#)) are REITs that I think are cheap and have growth potential in the coming years.

American Hotel Income Properties REIT LP

American Hotel was the best-performing North American hotel REIT last year. It is a limited partnership that invests in hotel real estate properties primarily in the United States. American Hotel focuses on the sectors of rail-crew lodging and select-service lodging, and it's transportation oriented.

American Hotel's rail portfolio consists of 45 properties. It generated US\$15.5 million of net operating income (NOI) in the nine months that ended in September. In the same period its branded portfolio of 35 hotels generated US\$22.3 million of NOI.

The REIT currently pays a monthly cash distribution of \$0.075 per unit, but will start paying a U.S. dollar-denominated distribution of US\$0.054 per unit in May for its April distribution.

At \$10 American Hotel yields 8.9%. Its adjusted-funds-from-operations (AFFO) payout ratio is about 70%, which gives it a margin of safety because its occupancy was 78% at the end of September.

It's probably best to hold American Hotel in an RRSP or RRIF because the REIT's distribution may consist of U.S.-sourced dividends, which have a 15% withholding tax if shares are held in other accounts. When in doubt, consult a tax professional.

Morguard North American Residential REIT

Morguard North American Residential REIT just acquired an Ottawa apartment building this month.

The REIT now owns interests in over 13,000 residential suites in 15 properties in Canada and 31 properties in the United States. Before the acquisition its U.S. portfolio occupancy was 93% and its Canadian portfolio occupancy was 98%.

The REIT's Canadian residential apartment communities are located in Alberta and Ontario, while its U.S. communities are located in Alabama, Colorado, Florida, Georgia, Louisiana, North Carolina, and Texas.

At \$11 Morguard yields 5.4%. In the nine months that ended in September its AFFO payout ratio was 71%, and along with high occupancy, its distribution is very safe.

Slate Office REIT

Slate Office differentiates itself by focusing on high-quality, non-trophy office properties that are overlooked by large investors. These non-core property assets have higher cap rates than trophy properties with an average spread of about 1.6%.

In November's presentation Slate Office indicated that management owned about 19% of the REIT, so its interests are aligned with unitholders' interests. Further, its top 10 tenants generated 45% of its portfolio revenue.

Additionally, its top tenants are investment-grade with about 6.5 years of lease term remaining. They include **BCE Inc.**, **SNC-Lavalin Group Inc.**, the federal government, and multiple provincial governments.

In the same presentation, Slate Office showed research from TD Securities that indicated the REIT was trading at the cheapest valuation compared with nine other small-cap REITs.

At \$7 Slate Office yields 10.8%. Its AFFO payout ratio of about 81% is below the peer average payout ratio and creates a margin of safety for its distribution.

Conclusion

All of these REITs are cheap. Based on American Hotel's historical normal multiple and consensus analyst target prices, it could trade between \$12 and \$13.75, implying the shares are discounted by 15-26%.

Based on Morguard's historical normal multiple, it could trade at \$13.9, implying the shares are discounted by almost 21%.

Based on Slate Office's historical normal multiple, it could trade at \$9, implying the shares are discounted by 22%.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:HOT.UN (American Hotel Income Properties REIT LP)
2. TSX:MRG.UN (Morguard North American Residential Real Estate Investment Trust)
3. TSX:RPR.UN (Ravelin Properties REIT)

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