



## Boardwalk REIT Hikes Dividend by 10.3%

### Description

**Boardwalk REIT** ([TSX:BEI.UN](#)) is a residential real estate investment trust (REIT) that owns and operates over 200 communities with more than 32,000 residential units totaling about 28 million net rentable square feet. The REIT focuses on quality communities and customer service as well as creating value for unitholders via sustainable monthly distributions and selective acquisitions, dispositions, development, and effective management.

Boardwalk reported solid fourth-quarter results. Despite navigating the challenging environment of low energy prices, Boardwalk still managed to maintain a high portfolio occupancy of 97%.

### Profitability and distribution hike

Having a high occupancy implies stable revenues and funds from operations (FFO). In fact, in 2015 Boardwalk's FFO per unit increased by 5.6%.

Boardwalk generated net operating income (NOI) of \$294.7 million in 2015, which was 1.1% higher than in 2014. Excluding rental operations from the Windsor portfolio that was sold in 2015, Boardwalk's NOI in 2015 was \$280.5 million, which is 1.8% higher than in 2014.

Boardwalk's stable NOI and growing FFO per unit allowed the REIT to hike its regular distribution by 10.3%. The new annual payout is now \$2.25 per unit, which equates to a yield of almost 5.3% as of February 18th's close. Based on Boardwalk's 2015 adjusted FFO per unit, its payout ratio is under 70%, which leaves a margin of safety for its distribution.

### NOI and occupancy levels

As of the end of 2015 Boardwalk's portfolio was concentrated Alberta, Saskatchewan, Ontario, and Quebec. In 2015 Boardwalk generated 68% of NOI from Alberta, 13.2% from Saskatchewan, 6.6% from Ontario, and 13.5% from Quebec.

Compared with 2014, Alberta's operating margin actually increased by 0.9%, while Saskatchewan's decreased by 3.8%, Ontario's increased by 0.7%, and Quebec's increased by 0.5%.

All city occupancy levels were above 95%, except for Fort McMurray in Alberta, which had an occupancy of 85.5% in 2015.

## **Guidance for 2016**

In 2016 Boardwalk plans to acquire 800-1,200 apartment units. Further, it continues to make an effort to stabilize NOI growth from -2% to 2%. Additionally, it targets FFO per unit to be \$3.40-3.60 (compared with 2015's \$3.56 per unit) and AFFO per unit to be \$3.06-3.26 (compared with 2015's \$3.23 per unit). Lastly, for its development pipeline, Boardwalk plans to commence the phases two and three of Pines Edge in Regina.

## **Tax on distributions**

REITs pay out distributions that are like dividends but are taxed differently than dividends. If you wish to avoid the different tax-reporting hassle, buy REITs in TFSA's to earn tax-free monthly income.

Investors may also be interested to know that in non-registered accounts, the return of capital portion of REIT distributions is tax deferred until unitholders sell or the adjusted cost basis turns negative.

## **Conclusion**

Boardwalk doesn't have a tendency to increase its regular monthly distribution every year. So interested investors shouldn't take the 10.3% distribution hike as a norm, especially since FFO is expected to be more or less the same in 2016.

Boardwalk has pulled back about 30% from its high. It is also priced at a significant discount relative to its net asset value (NAV).

At the end of 2015, Boardwalk's NAV was \$62.66. At \$42.55, it's priced at a 32% discount. Also, the buyback program commenced on June 30, 2015 (to purchase up to 10% of the public float), so the REIT will continue buying back units for cancellation.

Value investors looking for consistent monthly income should consider Boardwalk's quality units.

## **CATEGORY**

1. Dividend Stocks
2. Investing

## **TICKERS GLOBAL**

1. TSX:BEI.UN (Boardwalk Real Estate Investment Trust)

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