



Get a Safe 9.2% Yield From Northview Apartment REIT

Description

Real estate can be a part of your investment portfolio without you having to own real estate properties directly. This saves you a lot of trouble: there's no maintenance, no cleaning toilets, no screening for tenants, and no mortgage to pay down. How? Instead of owning real estate properties, you can own real estate investment trusts (REITs).

Northview Apartment REIT (TSX:NVU.UN) yields 9.2%, and it pays a monthly distribution. So, you can collect rent just like you would with real properties, except you can sit back in the comfort of your home or even be on vacation. The distribution cheque automatically appears in your account every month.

You might know Northview Apartment REIT as Northern Property REIT with the ticker TSX:NPR.UN. As of January 8, based on enterprise value, it was Canada's third-largest multi-family REIT with more than 24,000 suites in 60 markets across eight provinces and two territories, as well as 1.2 million square feet of commercial real estate.

Growth opportunities

Northview has identified opportunities to create value, including a high-end renovation program, market pricing improvements, and a sub-metering program. These opportunities are estimated to increase annual net operating income (NOI) by \$14,300,000. Additionally, the REIT's 2015 acquisitions gave it access to markets with higher projected population growth, including cities such as Toronto and Montreal.

A bargain with a safe dividend

At under \$18 per unit, Northview is a value investment priced 29% below its normal price-to-adjusted-funds-from-operations (P/AFFO) ratio. That is, it has potential for 40% capital gains.

Most importantly, Northview's 9.2% yield is sustainable. In the last 13 years it has increased its distribution eight times and has never cut it, while simultaneously reducing its FFO payout ratio from over 90% to under 70%. Further, Northview's interest-coverage ratio of about 2.9 times and debt-

service coverage ratio of about 1.7 times remain strong compared with its peers.

Resource area exposure

Northview is priced at a discount to its normal multiple because it has exposure to resource areas and commodity prices have been low. About 22% of its NOI comes from resource regions. Thankfully, its residential portfolio, which makes up 85% of its portfolio, maintains a high occupancy of 93.4%.

Specifically, its residential portfolio generates about 25% of NOI from Ontario, 18% from Nunavut, 17% from Alberta, 11% from Northwest Territories, 9% from British Columbia, 8% from Newfoundland, 6% from Quebec, and 2% each from Saskatchewan, New Brunswick, and Nova Scotia.

Conclusion

Northview is a discounted REIT compared with its peers and its normal multiple. There's a 29% margin of safety to its shares, resulting in an opportunity for potential capital gains of 40%. In the meantime, unitholders can receive a 9.2% yield.

CATEGORY

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