



## Canadian Apartment Properties REIT Is Great, but There's 1 Big Problem

### Description

There's no denying **Canadian Apartment Properties REIT's** ([TSX:CAR.UN](#)) high quality. It is a residential real estate investment trust (REIT) that owns apartments, townhouses, and land-lease communities in or near major urban centres in Canada.

The REIT is growth oriented. It has grown its suite count from 2,900 in 1997 to 47,559 today.

It has 50% of its properties in Ontario, and many see this as a positive. It also has 23% of its properties in Quebec, 10% in British Columbia, 6% in Alberta, and 5% in New Brunswick.

### First-quarter results

Quarterly results only affect short-term prices. So, long-term investors can choose to ignore them. However, the results indicate the REIT's health, so let's take a look at it.

In the first quarter, Canadian Apartment's operating revenues and net operating income (NOI) were up by almost 13%, and normalized funds from operations (FFO) rose almost 20%.

Additionally, Canadian Apartment's NOI margin improved by 30 basis points to 58.1%, and its same property average monthly rent improved by 1.7%. Although its occupancy rate decreased slightly by 40 basis points, it still maintains a high occupancy rate of 98.2%.

On a per-unit basis, the REIT's FFO only rose about 4%. As well, its same property NOI rose 2.6%.

### Strong financial profile

Canadian Apartment maintains a strong financial profile with strong coverage ratios and debt levels that are in alignment with its peers.

At the end of the first quarter, Canadian Apartment reported the following:

- Its debt-to-gross book value was 45.8%, 1.5% higher than in the same period in 2015
- Its weighted average mortgage interest rate was 3.36%, 24 basis points lower than in the same

period in 2015

- Its weighted average term to maturity was 6.1 years
- Its debt-service coverage ratio was 1.64 times, which was stronger than 2015's 1.59 times
- Its interest coverage ratio was three times, which was also stronger than 2015's 2.82 times

## Distribution

Over time, Canadian Apartment's FFO per unit has been trending up, while its payout ratio has been declining.

So, at \$31.80 per unit, the REIT's 3.8% yield is rock solid, especially since its first-quarter payout ratio was only 76%.

## The big problem: Too pricey

As noted before, Canadian Apartment's FFO per unit only rose 4.1%. Don't get me wrong. It's still strong growth.

However, Canadian Apartment now trades at a multiple of 19.6. The REIT has never traded at this high a multiple before—even when it had higher FFO per-unit growth in previous years.

Simply put, Canadian Apartment is just too expensive as an investment today.

## Conclusion

Canadian Apartment is one of the highest-quality residential REITs you can invest in. However, you should not buy shares today because they're simply too pricey. If the shares fell to \$26.80 or lower, the REIT would be a buy at a yield of 4.5% or higher.

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

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