



Buy Northview Apartment REIT to Boost Income: 4 Improving Qualities

Description

Rental properties are great sources of monthly income. However, not everyone has the time to manage and maintain properties. Real estate investment trusts (REITs) make it easy for anyone to earn a monthly income from real estate investing.

You can buy REITs with the right qualities that generate the income you need. Residential REITs are some of the most stable types of REITs investors can own.

Northview Apartment REIT (TSX:NVU.UN) offers one of the highest yields among residential REITs. Northview yields 7.9% today.

Fort McMurray impact

Northview has 14 buildings in Fort McMurray. As of May 5, the company announced that the buildings weren't damaged. Northview offers free accommodation in Northview's properties across Canada until the end of May for the 645 families that resided with Northview in McMurray.

Improving qualities

For income investors, Northview has several improving qualities that support its high yield.

The improving qualities are thanks to the acquisition of True North last year and Northview's continual efforts in executing its strategic value-creation initiatives.

Improving occupancy: Northview's portfolio occupancy was 90.7% in the first quarter, an improvement of 1.3% from the first quarter of 2015.

Cost savings: Northview internalized the property management of 7,600 units in Ontario as of April 1. This provides ongoing cost savings going forward.

Refinancing activities: Northview had a \$350 million bridge facility in place for the acquisition transaction last year. The REIT repaid that with term mortgage financing with a weighted average

interest rate of 3.15% and term to maturity of 7.2 years. It's probably a good time for refinancing activities because of the low interest rate environment.

Lower payout ratio: Northview's diluted funds from operations payout ratio in the first quarter was 71.7%, which was 6.4% lower than the first quarter 2015 payout ratio of 78.1%. This improves the safety of its 7.9% distribution yield.

Improving share price

Improving qualities lead to a higher share price. Since the announcement of its first-quarter results on May 5, Northview shares have appreciated 5%. The shares are up 17% year to date.

Tax on the income

If you're buying REIT units in a TFSA or RRSP, you do not need to worry about the rest of this section. However, if you want to learn about REIT's tax-advantaged nature, read on.

REITs pay out distributions that are unlike dividends. Distributions can consist of other income, capital gains, foreign non-business income and return of capital. Other income and foreign non-business income are taxed at your marginal tax rate, while capital gains are taxed at half of your marginal tax rate.

On the other hand, the return of capital portion reduces your adjusted cost basis. This means that that portion is tax deferred until you sell your units or until your adjusted cost basis turns negative.

So, if you buy REIT units in a non-registered account, you'll need to track the changes in the adjusted cost basis. The T3 that you'll receive will help you figure out the new adjusted cost basis.

Of course, each investor will need to look at their own situation. For instance, if you have room in your TFSA, it doesn't make sense to have investments in the non-registered account to be exposed to taxation.

Conclusion

Northview's 7.9% distribution yield is safe. To compare with an investment in a rental property, if you invest \$300,000 in Northview today, you'd get an annual income of \$23,700, which equates to a monthly income of \$1,975.

The REIT trades at \$20.60, and on May 5, the company said it was trading at a significant discount from its net asset value. However, if it dips to about \$19 per unit, it'd be a stronger buy.

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