What You Should Know About H&R REIT's Albertan Portfolio

Description

Since 2012, **H&R Real Estate Investment Trust's** (TSX:HR.UN) shares have mostly traded in the range of $20-24 per unit. So, the REIT was a great buy when it was trading between $18 and $20 per unit earlier this year.

For the first quarter that ended March 31, H&R REIT earned 27% of its same-asset property operating income from Alberta. Since the WTI oil price has fallen from over US$100 in 2014 to US$50 today, investors are rightfully concerned about H&R REIT's meaningful exposure to Alberta.

So, let's dig deeper into H&R REIT's Albertan portfolio.

Office portfolio

This year H&R REIT will earn 17.3% of its same-asset property operating income from its office properties in Alberta. This portfolio has an average remaining lease term of 17.5 years.

It consists of five tenants, and they all have an investment-grade S&P credit rating of at least BBB.

The top two tenants are **Encana Corporation** and TransCanada Pipelines Ltd., which contribute 12.6% and 3.3%, respectively, of H&R's same-asset property operating income. Moreover, they both have long-term leases with H&R until 2031 and 2038, respectively.

Other properties in Alberta

Since H&R is a diversified REIT, it also owns and collects rent from retail and industrial properties. So, it's not surprising that it also has these asset types in Alberta.

Specifically, its retail and industrial properties in Alberta contributed 8.8% and 1.5%, respectively, of its adjusted same-asset property operating income in the first quarter.

Impact of Target

Target Corporation was a tenant that came with the Primaris acquisition. Target exiting Canada and disclaiming its leases was a big reason why H&R REIT's occupancy in the first quarter was 95.8%, 1.8% lower than the same quarter in 2015.

As a result, H&R REIT has had to look for tenants to fill Target's space. Once that process completes, H&R expects to earn a base rent of $9.3 million each year from the new tenants, 111% higher than the $4.4 million lost revenue from Target's exit.

So, although H&R will lose some rental revenue from losing Target in the short term, in the long term it should benefit the REIT because it will be able to get a higher rental revenue from the space.

Conclusion

At about $22.30 per unit, investors can buy H&R REIT at a yield of above 6%. The estimated net asset value (NAV) range of the REIT is $23-25. So, the current unit price gives a slight discount of 3-11%.

Additionally, H&R REIT's funds from operations payout ratio is about 68%, which is on the conservative side in the REIT world. As well, its EBITDA interest coverage ratio remains strong at 2.8.

So, investors can expect to get a safe 6% yield from H&R as well as some potential capital appreciation if the REIT trades closer to its NAV.

CATEGORY

1. Dividend Stocks
2. Investing

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1. TSX:HR.UN (H&R Real Estate Investment Trust)

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kayng