



## Revealed: This Real Estate Expert Likes These 3 REITs

### Description

Derek Warren has become one of Canada's foremost experts in real estate investing.

Warren, who has 18 years of experience in the industry, arrived on the scene with **Morguard Corporation** back in 1998. He then moved on to Lincluden Investment Management where he became the manager of the CIBC Real Estate Fund—a position he's held since late 2012.

Warren is a regular guest on Business News Network's *Market Call*, a program where regular investors get to ask experts about various stocks. Before leaving, he gave investors his top three picks in the REIT sector, following up picks from last year that were up an average of 25.6%, including dividends.

Here are Derek Warren's top three picks.

### Canadian Apartment Properties

**Canadian Apartment Properties REIT** ([TSX:CAR.UN](https://www.tsx.com/stocks/indices/indices-by-market/capreit)), which is commonly referred to as CAPREIT, is Canada's largest owner of apartments with a market cap of \$4.1 billion. Assets include more than 42,000 apartment and townhouse suites, and 6,443 land lease sites in 31 different manufactured-home communities. The trust has 51% of its units in Ontario and 22% are in Quebec. Only 6% are located in Alberta.

Shares are off close to 10% from recent highs as the company reported somewhat anemic earnings, but there's a lot to like about CAPREIT over the long term. Warren specifically likes the REIT's Ontario exposure. The company's 4.1% dividend has been hiked in each of the last five years. And it has a nice blend between affordable, mid-tier, and luxury suites.

Investors don't have to worry about the REIT's payout either; only 72% of funds from operations go towards paying dividends.

### Killam

Warren named **Killam Apartment REIT** ([TSX:KMP.UN](https://www.tsx.com/stocks/indices/indices-by-market/killam)) as his top value choice, saying the discount

the market has assigned the company will start to go away.

Killam is a mid-sized Canadian apartment REIT, owning nearly 14,000 apartments, almost 5,200 manufactured-home sites, and a smattering of commercial property. It has some \$1.9 billion in total assets.

One of the things keeping Killam shares down traditionally has been its exposure to Atlantic Canada. It has 43% of net operating income coming from Nova Scotia and another 22% coming from New Brunswick. These areas haven't seen growth as robust as the rest of Canada in the past, leading investors to assign a discount to assets in the region.

Killam has been delivering good results lately, reporting occupancy of nearly 96% and same-property revenue growth of nearly 2%. The company is on pace to generate \$0.82 per share in funds from operations for 2016, putting shares at about 15 times earnings. It has a 4.8% yield and a payout ratio of approximately 80%.

## H&R

Finally, Warren listed **H&R Real Estate Investment Trust** ([TSX:HR.UN](#)) as his top income pick. With a current yield of 5.8%, a payout ratio of less than 70% of funds from operations, and ample liquidity for even the largest investors, H&R is a nice, safe dividend payer to own over the long term.

Another thing investors should like about H&R is its U.S. exposure. It owns a 33.6% interest in ECHO Realty LP, which owns 208 properties in the United States, spanning 8.7 million square feet of gross leasable space. Income from the United States makes up about 30% of H&R's total bottom line.

H&R continues to expand in the United States. Its residential portfolio consists of nearly 3,000 apartments in Texas, Florida, and North Carolina. It also owns 50% of a development in Long Island City, New York, a project slated to cost US\$1.2 billion. When finished, the development will include 1,871 luxury apartments and 15,000 square feet of retail space.

## Conclusion

Over the last three years, investors putting their money to work in Derek Warren's fund have enjoyed a total return of 12.4% annually. Rather than pay the 2.97% MER associated with the fund, investors can just put their cash to work in the manager's top picks. It worked pretty well a year ago, and could very well work again.

## CATEGORY

1. Dividend Stocks
2. Investing

## POST TAG

1. Editor's Choice

## TICKERS GLOBAL

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

2. TSX:HR.UN (H&R Real Estate Investment Trust)
3. TSX:KMP.UN (Killam Apartment REIT)

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