



## Is Killam Apartment REIT for You?

### Description

You might know **Killam Apartment REIT** ([TSX:KMP.UN](https://www.killamreit.com)) as Killam Properties Inc. when it was an investment trust. It converted to a real estate investment trust (REIT) at the beginning of 2016.

### The business

Killam Apartment REIT is a growth-oriented residential REIT with \$1.9 billion worth of assets. The REIT owns, manages, and develops multi-family residential properties in Atlantic Canada, Ontario, and Alberta.

Specifically, Killam Apartment REIT has 13,882 apartment units and 5,165 manufactured home community (MHC) sites as of September 2016.

Based on asset type, Killam Apartment REIT earns 89% of its net operating income (NOI) from apartments, 9% from MHCs, and 2% from commercial properties.

Geographically, Killam Apartment REIT earns 43% of its NOI from Nova Scotia, 22% from New Brunswick, 18% from Ontario, 8% from Newfoundland and Labrador, 6% from Prince Edward Island, and 3% from Alberta.

### Three key areas of growth

Killam Apartment REIT's core strategy of growth revolves around three key areas: increasing its NOI, expanding its portfolio, and developing new properties in its core markets.

#### 1. Growing its net operating income

Killam Apartment REIT has been increasing its NOI by growing its revenues and managing its expenses.

To grow its revenues, the REIT looks for ways to improve its occupancy and grow rental rates by delivering quality products and services and focusing on tenant satisfaction.

Killam Apartment REIT must be doing the right things, as it has achieved a 90% tenant satisfaction rating. Additionally, it has had an average apartment occupancy rate of 95.3% since 2013.

To reduce its expenses, the REIT executes energy- and water-saving programs. As well, it invests in technology, employee training, and tenant education.

As a result of its revenue growth and expense management efforts, Killam Apartment REIT's NOI has grown on average by 3.1% per year since 2007.

## **2. Growing its portfolio through acquisitions**

Since 2002 Killam Apartment REIT has been expanding its portfolio through accretive acquisitions in urban centres with higher population growth.

Specifically, Killam Apartment REIT has been investing in Ontario since 2010 and in Alberta since 2015. The REIT continues to look for opportunities to invest in those markets as well as its core markets in Atlantic Canada.

## **3. Growing its portfolio through developments**

Killam Apartment REIT complements external growth with internal developments. Since 2011 it has invested more than \$130 million in developments.

Currently, Killam Apartment REIT has a development pipeline of more than 1,200 units. The REIT anticipates completing a total of \$59 million worth of development projects in 2017 and 2018.

## **Conclusion**

At \$12, Killam Apartment REIT is fairly valued with a safe yield of 5%. Its adjusted funds from operations (FFO) payout ratio of 81% is sustainable. And that payout ratio is expected to improve.

Killam Apartment REIT is a good candidate for income and decent price appreciation based on its expected FFO growth of 6-8% per year in the next few years.

If you're looking for a discount, a price range of \$10-11.60 per share would be an excellent place to buy for the long term.

## **CATEGORY**

1. Dividend Stocks
2. Investing

## **TICKERS GLOBAL**

1. TSX:KMP.UN (Killam Apartment REIT)

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