



Why This Quality Apartment REIT Should Be on Your Radar

Description

Canadian Apartment Properties REIT ([TSX:CAR.UN](#)), also known as CAPREIT, has a quality portfolio. Yet its unit price has fallen nearly 15% in three months. It has declined from the \$33 level to the \$28 level and offers a decent yield of almost 4.4%.

Here's why you should keep it on your watch list.

Quality portfolio

CAPREIT has had a track record of accretive growth. From 1997's 2,900 units, its residential portfolio has grown to more than 48,500 units today.

As of the end of the second quarter, the REIT had 51% of its portfolio in Ontario, 22% in Quebec, and 10% in British Columbia. That is, 83% of its portfolio was rock solid with recent occupancies of 98.9%, 97.5%, and 99.7%, respectively.

These provinces had higher occupancies and net operating income (NOI) margins compared to what they had at the end of the second quarter in 2015.

Of the three, British Columbia had the highest NOI margin, followed by Ontario. As a result, British Columbia contributed about 12.3% of the REIT's total NOI, Ontario contributed 51.3%, and Quebec contributed 20.1%.

Moreover, although CAPREIT's Albertan portfolio saw its NOI margin reduce 6% to 60.4% and occupancy decline 90 basis points to 97%, the REIT only had 6% exposure to Alberta. So, the reduced margin and occupancy had little effect on its overall performance.

At the end of the second quarter, the REIT's same property portfolio average occupancy was 98.2%, which is an indication of stability.

Diversity in asset type

On top of its geographic advantage, CAPREIT also maintains a balanced portfolio based on asset type. It has 13% of its portfolio in manufactured home community suites, 32% in luxury suites, 48% in mid-tier suites, and 7% in affordable suites.

Additionally, CAPREIT manages and has 15.7% interest in Irish Residential Properties REIT. CAPREIT earned \$3.3 million in property and asset management fees from the REIT last year. The amount equated to about 1% of the REIT's annual NOI.

Recent performance

In the first half of 2016, CAPREIT increased its NOI by 12.4% and its normalized funds from operations (NFFO) per unit by 3.3%.

Since 1997 its payout ratio has been in a trend of decline. Its NFFO payout ratio is now at 72%. So, the REIT was able to safely hike its distribution in June by nearly 2.5%.

So what?

If you're a conservative investor looking to sleep well at night, CAPREIT should be on your radar. In the last 15 years, the REIT only had three years of negative earnings growth, and it never declined more than 5%. Its stability is simply astounding—it even saw earnings growth in the last two recessions.

The 15% dip resulted in the units yielding 4.4%. However, it still trades at a multiple of 16.4. If the units fell to \$25-26, it would be priced fairly compared to its historical trading multiple. Below \$25, it would be a strong buy. CAPREIT is a stable addition to any portfolio for the long term.

CATEGORY

1. Dividend Stocks
2. Investing

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

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