



Do You Need More Income in Your Portfolio? Get This Apartment REIT

Description

Real estate investment trusts (REITs) offer monthly distributions that are perfect for investors looking for income.

Northview Apartment REIT (TSX:NVU.UN) is more diversified than it was a year ago. The True North transaction has reduced its concentration in northern and western Canada.

As a result, it has traded at a lower correlation to the WTI crude oil price since the transaction (47% correlation compared to 91% correlation before).

Yet the REIT still earns a meaningful portion of its operating income from resource-based markets. So, its units remain depressed amid low commodity prices.

The company offers a yield of 8.2%. Can you count on its big distribution?

Let's explore this high-income idea.

Portfolio

Northview Apartment REIT has about 24,300 residential suites in more than 60 markets across Canada. The company has made efforts to diversify away from resource-based markets.

In the second quarter, the company earned 34% of its net operating income (NOI) from northern Canada, 27% from Ontario, 22% from western Canada (of the 22%, 14% came from resource-based regions), 12% from Atlantic Canada, and 5% from Quebec.

The company earns 86% of its NOI from its residential portfolio, 10% from commercial properties, and 4% from executives and hotel properties.

apartment

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Improvements

Northview Apartment REIT has been executing some value-creation initiatives. For example, it has been renovating selective units, increasing their rental rates, and getting an average return on investment of 15%. It has also increased the rental rates for units with below-market rents from the acquired portfolio.

Dividend safety

Northview Apartment REIT has increased its distribution eight times since 2002 and has never cut its distribution. Additionally, a high occupancy and a sustainable payout ratio support the safety of the REIT's 8.2% yield. Northview Apartment REIT's residential portfolio's occupancy was 91% in the second quarter and its overall payout ratio is about 77%.

Income tax on REIT distributions

REITs pay out distributions that are like dividends but taxed differently.

In non-registered accounts, the return-of-capital portion of the distribution is tax deferred until unitholders sell or their adjusted cost basis turns negative.

REIT distributions can also contain other income, capital gains, and foreign non-business income.

Other income and foreign non-business income are taxed at your marginal tax rate, while capital gains

are taxed at half your marginal tax rate.

When unsure of where best to hold REIT units, contact a tax professional or the REIT in question.

Valuation

Northview Apartment REIT trades close to its book value. At below \$20 per unit, the company trades at a price to funds from operations (P/FFO) of nine, which implies a 24% discount from its normal P/FFO of 12. However, since the company has a more diversified portfolio, it could trade at a higher normal P/FFO in the future.

Conclusion

Management has been prudent in its actions and has been more than willing to maintain the REIT's distribution since 2002 while reducing its payout ratio.

When commodity prices are low, Northview Apartment REIT trades at a discount—like it's doing now. So, at below \$20, it's a decent price to buy the units for a safe 8.2% yield.

CATEGORY

1. Dividend Stocks
2. Investing

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