



3 Reasons to Consider Altus Group Ltd.

Description

The commercial real estate marketplace is one that is growing both in terms of size as well as complexity. **Altus Group Ltd.** ([TSX:AIF](#)) is an analytics and professional services company that is shaping the commercial real estate analytics environment, providing services that add significant value to its customers, leading to very strong customer retention rates and high levels of recurring income.

I'll be taking a deeper look at three reasons why Altus should be considered as a long-term play in any portfolio.

The commercial real estate industry is strong and getting stronger

Commercial real estate is one asset class within the real property sector that is seeing significant inventory declines globally with rapidly rising prices and increasing demand. Industrial and commercial spaces are being converted to apartments, condos, and retail or multi-use spaces at a torrid pace. This effect is being felt in larger cities and metropolitan areas where commercial real estate is even more valuable.

The services Altus provides to its clients involve a range of analytics services (mostly subscription services with 75% recurring revenue) as well as expert analysis services, such as property tax analysis or valuation analysis for existing/target properties, for commercial real estate property holders. These services are expected to grow substantially as the market continues to balloon.

Commercial real estate is becoming “institutionalized”

Commercial real estate is becoming increasingly “institutionalized” as large pension funds and commercial banks are looking for additional diversification, allocating higher percentages of capital toward real estate as a separate asset class. The portfolio allocation percentage for institutional portfolios is expected to reach an average of 10.7% in 2017—a significant increase from 9.6% in 2015.

Traditionally, the commercial real estate industry has lagged behind other industries in terms of bigdata and analytics spending. Altus is positioned on the front end of the growth curve to take advantage of a lot of the potential market upside the company expects in the short to medium term.

The concentration effect of institutionalization on the commercial real estate industry will continue to benefit Altus, as the company has been able to maintain strong relationships with major players in the commercial real estate space. I anticipate these relationships to continue indefinitely and to provide even more value as a barrier to new players potentially look at entering the market.

Altus's revenue model is sustainable and scalable

A large portion of the strength of Altus's business model comes from North America and Europe, where commercial real estate plays a much more significant role in financial markets and investor portfolios. The company has a global reach and expects to see sustained growth from emerging markets in the near future.

This growth is expected to continue to be high-margin, recurring-revenue growth. It is important to note the nature of the revenue model Altus has put together, as other comparable companies in the industry simply have not been able to scale the recurring-revenue and high-margin revenue sides of the business to the same extent as Altus.

In many respects, Altus remains a market leader (and first entrant in a lot of markets) for these highly lucrative and ongoing revenues that will sustain the company into the long term.

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