



2 Growth-Focused Apartment REITs With Stable Yields

Description

Everyone must find a place to live in. If you don't own a place, you must rent one. That's why residential real estate investment trusts (REITs) are a stable asset class.

Here are two residential REITs that have higher growth potential than the industry.

Interrent Real Estate Investment Trust ([TSX:IIP.UN](https://www.interrentreit.com)) is focused on generating value and growing a sustainable distribution with a portfolio in Ontario and Quebec.

Interrent REIT's primary markets contribute about 80% of its net operating income (NOI). The company also has a capital-recycling strategy, which looks to refinance at favourable rates and to sell non-core assets.

At the end of September, Interrent REIT had 8,059 suites and a portfolio occupancy of 94.2%.

The current management has been with the company since 2009. Since then, it has rebuilt and repositioned the company. It took a little over a year for the management to start turning the company around with amazing results.

Interrent REIT was trading at \$1.80 per unit when the management took over. The units are more than 300% higher now. Additionally, the units paid an initial yield of nearly 6.7%, which has grown to a yield on cost of 12.9%!

apartment building
apartment building unknown

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Although Interrent REIT only yields a little more than 3.3% at \$7.24 per unit, since 2011, it has hiked its distribution by 94% from an annual payout of 12 cents to 23.3 cents per unit. That is very strong growth of nearly 14.2% per year!

That said, in the last two years, it has increased its distribution by about 5% each year. So, recent growth has slowed down but is still higher than most REITs. After all, it's not a common practice for Canadian REITs to hike their distributions.

Interrent REIT's payout ratio is about 63%, and it's at the low end compared to six other peers. So, the REIT has room to grow its distribution.

Killam Apartment REIT ([TSX:KMP.UN](https://www.killamapartmentreit.com)) has \$1.9 billion of assets, including 13,952 apartment units and 5,165 manufactured home community (MHC) sites.

It earns 89% of its NOI from apartments, 9% from MHCs, and 2% from commercial properties. Geographically, it earns 83% of its NOI from three provinces: 43% from Nova Scotia, 22% from Alberta, and 18% from Ontario.

Killam's growth strategy includes increasing earnings from its current portfolio, making accretive acquisitions, and developing high-quality properties in its core markets.

At about \$12, Killam yields nearly 5% with a sustainable payout ratio of about 71%.

Summary

Interrent REIT and Killam offer safe yields of about 3.3% and 5% in the stable multi-family REIT asset class. Both companies are fairly valued to fully valued. So, they would be especially great buys for income on any further dips.

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