Allied Properties Real Estate Investment: A Smart Buy for Your Portfolio?

Description

There are many options on the market to consider when looking for a smart income stock for your portfolio. One that I've recently learned about is **Allied Properties Real Estate Investment** (TSX:AP.UN), which offers exposure to office real estate in major Canadian cities. And after researching it extensively, I believe it has the potential to provide an additional bump to your yearly return.

Because of Allied's focus on major Canadian cities, I believe there is less volatility due to the natural urbanization of economies around the world. All told, it has over 150 properties with a total of 11.9 million square feet. Toronto and Montreal make up the bulk of its portfolio at 39% and 36%, respectively, of leasable area. Calgary accounts for 8.4%, Kitchener accounts for 4.5%, Winnipeg accounts for 2.9%, and Edmonton, Vancouver, Quebec, and Ottawa each account for 2.4% or less.

Along with its diversification across urban areas, its list of tenants is also widespread. Equinix, a data centre operator, accounts for 3% of gross revenue; Ubisoft, a video game maker, accounts for 2.3%, and Visa Desjardins accounts for 2.3%. The remainder include a cloud service provider, National Capital Commission, Cologix, Entertainment One, **Morgan Stanley**, All Stream, and **Bell Canada**. These companies only account for 19.2% of gross revenue, so Allied is not beholden to any one firm. All told, 28% is leased by telecommunications & IT and 29.7% is leased by business services and professionals.

If we look at Allied's total occupancy, the company is doing well. In its major markets of Toronto, Montreal, and Calgary, its occupancy rate is 95.2%, 91.3%, and 85.2%, respectively. Across the company's entire network, its occupancy ratio is 92.1%. Quebec City is its weakest market with an 61.1% occupancy, but, fortunately, this is only 223,407 square feet.

Allied is not content with what it currently owns and has been making moves to expand and contract its portfolio.

In 2016, it spent a little over $376 million to acquire seven properties. It has 23,700 square feet in Calgary, 184,000 in Toronto, and a little over 1.1 million square feet in Montreal. Allied also sold a total of 122,000 square feet across Toronto, Winnipeg, and Victoria for $27 million.

Looking at its year-end earnings report, the company has done an incredible job growing its funds from operations and net income. In 2014, it had net income of $2.13 per share; by 2015, that had grown to $3.27; finally, by the end of 2016, its net income was $4.01 per share. Allied's funds from operation have grown from $2.09 in 2014 to $2.13 in 2016.

What about the dividend?

Allied yields 4.40%, which is good for $0.1275 per share a month. What should excite investors is that the company continues to increase the dividend. In 2014, it paid out $1.41 in dividends for the year; in 2015, that increased to $1.46; last year, it was $1.50; and now, investors should expect $1.53 in dividends this year.

Allied Properties is a great company to own for exposure to office space in many of Canada's top metro areas. With a focus on Toronto and Montreal, I believe the company will continue to experience growth. This stock should continue to provide returns for investors.

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