Is This the Right Time to Buy Allied Properties Real Estate Investment?

Description

Allied Properties Real Estate Investment (TSX:AP.UN) has had strong returns since the end of January; the share price has increased by nearly $6.50, or 19.2%. And investors have received a consistent monthly dividend of $0.13, which only compounds the return on investment in the same period.

It makes perfect sense. Real estate can be an amazing investment, especially if you're focusing on building or acquiring properties in regions that are seeing growing demand. This is the exact scenario in which Allied Properties finds itself.

Allied Properties focuses on the major Canadian cities with 11.8 million square feet across 156 properties as of March 31. Its top three regions are Toronto with 4.6 million square feet, Montreal with 4.3 million square feet, and Calgary with just a little over one million square feet. It also has square footage available in Kitchener, Winnipeg, Edmonton, Vancouver, Ottawa, and Quebec City.

This strategy is so lucrative for Allied Properties because there has been consistent urbanization in Canada for some time now with increasing numbers of people moving closer to cities. According to Stats Canada, in Ontario, 89.7% of people in 2016 lived in an area with 10,000 or more people. And across Canada as a whole, 83.2% live in areas with 10,000 or more.

So, Allied Properties provides geographic diversification, but only across cities that continue to grow. However, the diversification doesn't end there, because the company *also* has tenant diversification.

In Q1 2017, its top 10 tenants accounted for only 18% of rental revenue, with the largest three being Equinix, Ubisoft, and Desjardins, accounting for 2.8%, 2.4%, and 2.2% of rental revenue, respectively. In 2003, the top 10 tenants accounted for 49% of rental revenue, so the company has worked hard to carry less tenant risk.

Looking at its occupancy rate, we can see this strategy in action. Across the entire network, 92.6% is leased. In its three major regions, Toronto is 95.9% leased, Montreal is 92% leased, and Calgary is 84.3% leased. Calgary's rate is lower because its economy is dependent heavily on strong oil prices.

There are two ways Allied can achieve growth.

First is through standard development, with close to two million square feet expected to come online between now and 2022. The company has an additional 2.6 million square feet in unscheduled development.

Then there's growth through acquisition, which Allied is methodical about. In Q1, it spent $14 million adding 13,439 square feet to its network. And on June 20, it announced the acquisition of 56 The Esplanade for $60 million, a property that has 76,112 square feet of leasable area with 98% already leased. As other opportunities show themselves, I expect the company to pounce.

Is it a good time to buy?

Allied Properties is operating quite efficiently, which we can see in the stock price.

According to the company, its net asset value (NAV) is about $3 billion, which means that it has a NAV of about $36. However, shares are trading at nearly $40 a share, which suggests that shares are about 11% overvalued. And if you add in the monthly dividend, which investors love, it makes sense for shares to be a little high.

However, sometimes it pays to wait for the stock to drop a little. Right now, if you were to invest $10,000 in the company, you'd get approximately 250 shares (if shares trade at $40, for easy math). If you were to wait for them to fall back to the NAV of $36, you'd get 278. At today's price, you'd be looking at $390 a year in income; however, if you waited for the price to drop, you'd be looking at $433 in income.

There are obvious risks to waiting. First, if shares never drop, you're missing out on that monthly dividend. And second, if the company increases the dividend, shares might even surge, making it even more expensive. Nevertheless, the lesson is simple: waiting for a higher yield can sometimes add a nice boost to your income.

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