Is Interrent Real Estate Investment Trust a Buy Under $8 a Share?

Description

Over the past week, shares of **Interrent Real Estate Investment Trust** (TSX:IIP.UN) went ex-dividend, and shares declined under $8. At this price, the company offers investors a yield slightly above 3% in addition to the opportunity for capital appreciation.

The company is a real estate investment trust (REIT); it is in the business of owning and renting multi-unit buildings in Canada. It focuses on the Ontario market; of the 70 properties owned by the company, only one is located in Gatineau (Quebec), and five are in the Montreal area. Outside the Greater Toronto Area (GTA), there are another nine properties located in Sault-Ste-Marie (Ontario). Given the concentrated nature of the company, investors must be willing to bet on eastern Canada and the province of Ontario if they choose to make this investment.

With a beta of only 0.49, shares are not very volatile and have provided a solid long-term return. Over the past five years, the capital appreciation has been a total of 80%, which translates to a compounded annual growth rate (CAGR) of 15.8%. The monthly dividend payments, which have risen fairly consistently, are a source of return in addition to the capital appreciation. Interrent currently pays a monthly dividend of $0.02025 per month — an increase from last year's monthly payment of $0.01925 per month.

Let's evaluate the potential for capital appreciation. The company is trading just shy of the $8 mark. It carries tangible book value of $7.47 per share. As a result of the large real estate portfolio mainly focused inside the GTA, shareholders, until recently, have experienced a large amount of capital appreciation.

Although the monthly numbers for individual unit sales were released recently and the volume of properties declined significantly, this may not bad news for the multi-unit rental market. As home prices have increased dramatically over the past few years and more people have chosen to rent for a longer period of time, the demand for rental units has increased, which in turn makes the investments held within the REIT much more valuable. Assuming each building will be able to increase rents over the next 12 months, the end result will be assets that are worth more money and mortgages that are declining.

The catalyst for investors could come in the form of a dividend increase. As most REITs carry significantly high payout ratios, it is important to note that Interrent paid out only 37.7% of the cash flows from operations during fiscal 2016. Throughout the first quarter of fiscal 2017, the amount was approximately 45%.

For investors considering this name, it is important to have proper expectations. The current dividend yield, which is close to 3%, should remain stable for the long term with further returns coming from advances in the share price. Considering the returns that come from REITs are passive in nature, the past price returns of 15% or more are nothing short of fantastic.

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