



This Canadian REIT Soars High Above its Competition

Description

A low-entry strategy to invest in real estate is to buy shares of a residential real estate investment trust (REIT) and generate dividend income. Apartment REITs are a particularly interesting because apartment living is increasingly common in big cities like Toronto and Vancouver, where population density and housing costs provide formidable market forces.

Canadian Apartment Properties REIT ([TSX:CAR.UN](#)) currently trades at \$33.08, has a market cap of \$4.49 billion, and pays a 3.90% dividend yield with an impressive and safe payout ratio of 34%. The stock closed up 2.07% after testing a support level around \$32 a share. From a valuation point of view, it is best to look at the price-to-funds-from-operation (P/FFO) ratio.

In the case of CAR.UN, its five-year P/FFO is 15.9, which is comparable to the sector average. Its 10-year compound annual growth rate in revenue is 7.34%—single-digit but robust growth. The company trades on the TSX with 52% of its rental units concentrated in Ontario, but it is globally diversified with operations in Ireland and the Netherlands.

Relative to two competing REITs on the TSX, **Boardwalk REIT** ([TSX:BEI.UN](#)) and **Killam Apartment REIT** ([TSX:KMP.UN](#)), CAR.UN has favourable valuations: revenue is going in the right direction and the debt-to-equity ratio is modest.

Keeping the payout ratio in check appears to be a priority for CAR.UN; in recent years, it has managed to keep the dividend payout far below 80% (according to a market report), which is both ideal and impressive. Boardwalk and Killam pay higher dividends by 0.82% and 1.14%, respectively, but they come with the increased risk that the dividends are not sustainable.

I have a few more arguments in support of CAR.UN. First, its occupancy rate remains high: it was over 98% in 2016 and into 2017. Second, its overall portfolio average monthly rent is \$1,007 in 2017, which reflects the fact that about 45% of its units are in the mid-tier tenant demographic.

What I like most about this company (putting me over the edge from modest endorsement to enthusiastic) is the fact that CAR.UN has received the highest “walking score” in April 2017 compared to the other REITs, as reported in the *Financial Post*. The conclusion is that Canadian Apartment

Properties REIT operates in places where people like to live, which suggests this company has a pretty wide moat.

Investing in CAR.UN is a walk in the park.

CATEGORY

1. Investing

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1. TSX:BEI.UN (Boardwalk Real Estate Investment Trust)
2. TSX:CAR.UN (Canadian Apartment Properties Real Estate Investment Trust)
3. TSX:KMP.UN (Killam Apartment REIT)

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