



Will These REITs Continue to Outperform?

Description

The Bank of Canada affects short-term interest rates by hiking or reducing the overnight rate target. With the latest hike, the overnight rate target now sits at 1%.

Higher interest rates will eventually put some pressure on the business performance of real estate investment trusts (REITs) because of their mortgages. Higher rates may also have an immediate impact on their share prices because of the fear of higher borrowing costs down the road.

Yet, in this rising-rate environment, which indicates an improvement in the economy, there are at least two REITs that have done well.

Canadian Apartment Properties REIT ([TSX:CAR.UN](#)) and **Allied Properties Real Estate Investment** ([TSX:AP.UN](#)) shares have appreciated nearly 8% and about 7%, respectively, year to date, and they offer yields of 3.8% and 4%. These are strong performers compared to some other REITs that are in the red and have even cut their dividends.



Why Canadian Apartment Properties has outperformed

Canadian Apartment Properties is in the stable asset class of residential REITs with interests in

apartment buildings, townhouses, and land-lease communities located in or near major urban centres across Canada.

Additionally, Canadian Apartment Properties has little exposure to resource regions: 6% of its portfolio is in Alberta and 1% is in Saskatchewan. Instead, it has 50% of its portfolio in Ontario and 22% in Quebec.

In the second quarter, the REIT had high occupancies of 99.4% and 97.6%, respectively, and saw a ~3.9% and 3.2% increase in average monthly rent compared to what they were a year ago from these regions.

Why Allied Properties has outperformed

Allied Properties owns, manages, and develops distinctive urban workspaces in major cities of Canada. It specializes in reformatting office spaces from light industrial structures. These office spaces feature high ceilings, abundant natural light, exposed structural frames, and interior brick and hardwood floors, which satisfy the needs of office and retail tenants.

Allied Properties has little exposure to Alberta (~10.2% of gross leasable area). Most of its portfolio is in Toronto (~35%) and Montreal (~36%).

Will an investment today in these REITs outperform?

At \$33.85 per unit, Canadian Apartment Properties trades at a multiple of ~18.9. Allied Properties recently had an equity offering at \$39 per unit. So, the stock is unlikely to go much higher than that in the near term. At \$38.49 per unit, Allied Properties trades at a multiple of 17.8.

Both REITs are estimated to grow their funds from operations per unit by ~3% per year. The market is pricing the stocks at a high premium. So, I don't expect they will outperform at current levels.

That said, Canadian Apartment Properties and Allied Properties are pretty stable businesses. So, conservative investors can look for meaningful dips before considering buying some shares.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:AP.UN (Allied Properties Real Estate Investment Trust)
2. TSX:CAR.UN (Canadian Apartment Properties Real Estate Investment Trust)

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