Allied Properties Real Estate Investment Is a Must-Own Commercial REIT

Description

Real estate investment trusts (REITs) are a great way for investors to earn lucrative income, while gaining exposure to major assets. To acquire a large-scale commercial property, you'd need considerable capital and operating experience. Investing with a REIT instead gives you the exposure without the hard work.

In Canada, there are a couple of different commercial plays that are worth considering. However, the only one that is really *must-own* is **Allied Properties Real Estate Investment** (TSX:AP.UN). I like Allied primarily because it is focused on major urban markets here in Canada. There has been consistent growth in cities, as young professionals move out of the suburbs and into cities. With that comes the need for employers to have office space.

Allied's portfolio is broken down into seven markets: Montreal with 4,256,906 gross leasable area (GLA); Toronto with 4,186,019 GLA plus an additional 559,688 in its Mission Critical project; 924,038 GLA in Calgary; 562,185 GLA in Kitchener; 286,520 GLA in Vancouver; 271,376 GLA in Edmonton; and 221,057 GLA in Ottawa.

What's clear is that the company is primarily focused on the major cities, and in particular, it's dependent on Montreal and Toronto for the bulk of its earnings. Cities have network effects. If a city has people moving in, jobs are going to follow, which means more people are going to move in. Allied is in a position to benefit from this.

But having leasable area and leasing are two different things.

In Toronto, the company has a leased rate of 98.6%, which means that only 59,000 square feet are not leased. Montreal had a leased rate of 94.5%. Across the entire network, it had a 95.8% leased rate, which came down to 95.2% when taking into consideration the Mission Critical project — this isn't office space, but data centre space, which is why it gets called out separately. At the end of 2016, the leased area was 92.1%, so things are definitely improving.

One aspect of the business I like is that management is not a buy-and-hold-forever investor. It certainly buys, picking up 124,549 square feet in Toronto during 2017 at a cost of $123 million. At the same time, it sold 589,760 square feet in Edmonton, Winnipeg, and Quebec City for $54 million. Acquiring and disposing of assets is a solid way for the company to recycle money and pick up better-quality properties.

The primary frustration that I have with Allied is that it's expensive and has been for a while. At the end of December, its net asset value per share was $38.19. Shares, though, are trading at $41.90, which means that to pick up shares, you're actually paying more for the real estate than you otherwise would. That's bad, right?

Not exactly … Allied Properties is a dependable company and pays a monthly dividend of $0.13. Although the 3.72% yield is lower than most other commercial REITs, you get what you pay for. With its focus on the Toronto and Montreal markets, Allied is in a prime position to benefit from continued city growth. And if it continues to sell non-core assets and invest in the right markets, I expect the dividend to grow over time.

Despite its expensive nature, Allied Properties is a must-own commercial REIT. But there are other investment opportunities out there.

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