

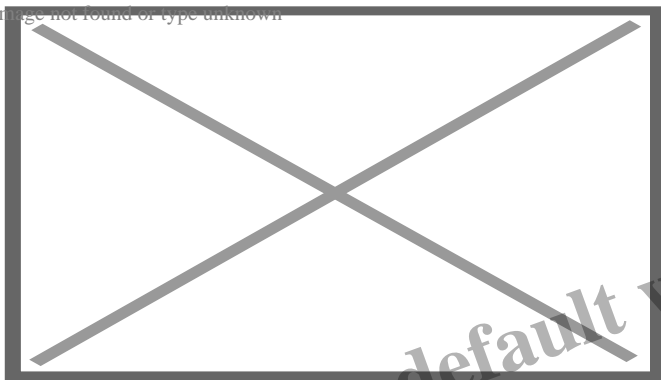
Should You Buy This Residential REIT for Growth?

Description

InterRent Real Estate Investment Trust ([TSX:IIP.UN](#)) has been a fabulous investment. Long-term investments in the residential real estate investment trust (REIT) have seen nearly double the returns of the market.

Specifically, an investment from before the financial crisis of 2008-2009 has delivered annualized rates of return of about 12.6%, while in the same period, an investment in the U.S. market using the **S&P 500 Index** as a proxy has delivered an annualized rate of return of about 6.5%.

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InterRent's transformation

As noted on its website, "InterRent underwent significant changes through 2010 as a result of the outsourcing of property management late in 2009 and the implementation of the repositioning strategy that management and the board had adopted."

As a result, the REIT's funds-from-operations-per-unit was reduced by more than half from 2008 to 2010. Throughout the change, InterRent invested in its buildings, hired and trained new staff and focused on attracting a more desirable tenant base. Along with a private placement that raised \$5.4 million, mortgage financing of \$22.3 million, and some non-core asset sales in 2010, InterRent has repositioned and transformed itself to allow for more growth.

Distribution

Although InterRent only offers a distribution yield of about 2.5%, the company has been increasing its distribution at an above average pace. From 2014 to 2017, InterRent's funds from operations per unit increased by about 8.4% per year on average. In the same period, the REIT's distribution per unit increased by about 7.7% per year on average.

InterRent's funds from operations payout ratio is estimated to be below 60% this year. So, its distribution is safe.

The REIT offers a distribution reinvest plan that allows enrolled unitholders to reinvest their

distributions to buy shares with a 4% discount. That's a great way for long-term investors to build their positions.

Valuation

It's estimated that [InterRent](#) will grow its funds from operations per unit by 10-11% for the next couple of years. At the recent quotation of about \$11 per unit, InterRent trades at a price-to-funds-from-operations multiple of about 25. So, at best the stock is fully valued.

The **Bank of Nova Scotia** analyst has a 12-month target price of \$11.75 per unit on the stock, representing upside potential of about 6.8% and near-term total returns potential of about 9.3%.

Investor takeaway

Shareholders who are looking for above-average growth in the stable industry of residential REIT can consider [holding](#) the stock. However, investors looking for an entry point should consider waiting for weakness from the stock that will likely be triggered by a market- or industry-wide pullback. For a reasonable value, consider start building a position at about \$8 per unit.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:IIP.UN (InterRent Real Estate Investment Trust)

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