3 Reasons You Want to Own This Newly Listed REIT

Description

Have you heard of **BSR Real Estate Investment Trust** (TSX:HOM.U)? I hadn't until its IPO in early June.

The small-cap REIT owns 48 multi-family apartment buildings with 9,879 apartment units in the southern U.S. with two-thirds of them in Texas and Arkansas. Currently trading below its US$10 IPO price, here are three reasons you might want to take a closer look at it.

Insiders own 51%

CEO John Bailey and director Daniel Hughes together own 51% of the REIT, which means their interests are aligned with the other shareholders'.

The history of BSR dates back to 2012 when Bailey Properties LLC, the CEO's real estate company, merged with Daniel Hughes's company, Summit Housing Partners, to form BSR Trust, a US$1 billion multi-family enterprise.

Interestingly, while Hughes was CEO of the merged company and Bailey served on the board, it is Bailey who is CEO of the publicly listed REIT with Hughes relegated to the board.

The important thing is the two men have a keen understanding of the multi-family residential real estate market in the Sun Belt region of the U.S. and have a vested interest in growing the business in an area of the country that's experiencing strong population and job growth.

Upgraded properties

Starting in July 2015 through December 31, 2017, BSR underwent a significant upgrade of approximately 4,500 of its apartment units (46% of its portfolio), spending US$51.4 million — more than half in 2017 alone.

As a result of those upgrades, BSR increased the net operating income (NOI) from those 4,500 apartments by 16.1%, a very healthy increase over a 30-month period. So successful were these upgrades, it plans on renovating an additional 3,000 units, primarily in Texas and Arkansas, over the next three years at a cost of $25 million.

Approximately 50% of the apartment units are two bedrooms, 45% are one bedroom, and the remaining 5% are three-bedroom units. Occupancy is a reasonably high 92.7%.

Of the 48 apartment communities, 43% are in Texas, which are forecasted to generate 52% of the REIT's NOI. As Texas goes, so goes BSR.

BSR had an independent appraisal of its properties done for its IPO. The appraiser estimated the portfolio's value at US$890 million.

Snowbirds will love the distributions

Traded in U.S. dollars, BSR pays its monthly distributions with greenbacks rather than loonies. It currently yields 5.3% with a reasonable payout ratio of 78%.

According to its prospectus, BSR's average term to maturity of its mortgages on its properties is the most extended duration of any publicly traded multi-family REIT in North America with a market cap of US$200 million or more.

Its mortgages have a weighted average term of almost 11 years with a weighted average interest rate of 3.82%. Approximately 86% of its debt is fixed or hedged to fixed rates.

The bottom line on BSR REIT

BSR has two significant advantages as it moves ahead with its growth strategy.

First, it operates in suburban markets in the southern U.S. outside larger cities, where the competition for acquisitions isn't nearly as intense.

Second, the garden-style apartment industry (three storeys or less) is very fragmented and ready for the taking. According to the National Multifamily Housing Council, the top 50 largest multifamily owners own less than 10% of the 20.8 million apartment units in the U.S., leaving it with plenty of growth potential.

You can invest in stocks like **RioCan Real Estate Investment Trust** that focus on the big cities, or you can go for something like BSR that flies under the radars of most investors.

I'm a contrarian, so I'll recommend you go with BSR.

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