Is This Commercial REIT the Complete Package?

Description

I've long maintained that REITs are some of the best investments you can add to your portfolio. Too often, investors chase after high-yield dividends or impressive growth stocks, not realizing that it is possible to find an investment that can offer both income and growth over the long term.

One such investment that can offer both is **Allied Properties Real Estate** (TSX:AP.UN).

The commercial-focused REIT has several compelling reasons for investors to consider it.

Allied Properties has strong growth prospects with an emphasis on hot markets

Allied Properties has placed a focus on the major metro areas of the country, and as a result, the bulk of Allied's properties are in the super expensive and very occupied downtown Toronto. Apart from Toronto, the next largest markets where Allied has a strong presence are both Montreal and Calgary.

In terms of results, Allied provided a quarterly update this month that, while positive, revealed two very unique points that prospective investors should take into consideration.

First, despite Allied's occupancy rate boasting a 94.9% rate in the last quarter, the company still managed to boost it to 95.4% in the latest quarter. This, when viewed in conjunction with an 83% renewal rate on leases in the quarter (and keep in mind that new leases come with price increases), paints a very positive picture for the company.

Second, Allied's debt position is improving. In the same period last year, Allied's total indebtedness ratio stood at 37.3%. In the most recent quarter, this figure dropped to 29.9% — far below the target rate of 35% that the company had set. This impressively reveals that the company is on firm ground financially.

Allied Properties is capitalizing on the changing face of real estate

Real estate evolves with the times, much like our tastes for certain products or music change with time. The difference is that knocking down a building that was erected for an industrial factory is much larger and more expensive endeavour over, say, choosing grilled instead of batter fried fish from your grocer.

Many of Allied's assets cater to that exact scenario. Allied creates large open spaces that the company refers to as urban office environments. The re-purposed industrial structures that Allied targets are appealing for a number of reasons, such as their central location and unique design, which not only attracts potential tenants, but also offers a unique experience over its competitors.

Finally, there's the market. With most commercial REITs focusing on existing traditional office space settings, Allied has some advantages: it has less competition, a good inventory of properties, and — due to its former light-industrial structures — lower rates.

One such development that is noteworthy is the Toronto project known as The Well — the 1.6 million square feet of office, retail, and residential space is being developed in conjunction with another well-known REIT, **RioCan Real Estate Investment Trust.**

A generous distribution

Allied Properties is not unlike many other REITs in offering a generous monthly distribution. The current payout amounts to $0.13 per share, which translates into a very solid 3.55% yield.

In terms of growth, Allied Properties has hiked its monthly payout on an annual or better basis going back at least five years, with the most recent uptick coming at the end of 2017.

In my opinion, Allied Properties is a great long-term investment for those investors that are seeking both growth and income.

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