Warning: Avoid Investing in These REITs Right Now

Description

Canadian Apartment Properties (TSX:CAR.UN) and **Allied Properties** (TSX:AP.UN) are two quality real estate investment trusts (REITs). Investors can be assured that their cash distributions are safe. However, there are better places to invest your money in real estate for safe and growing income, total returns, and preservation of capital.

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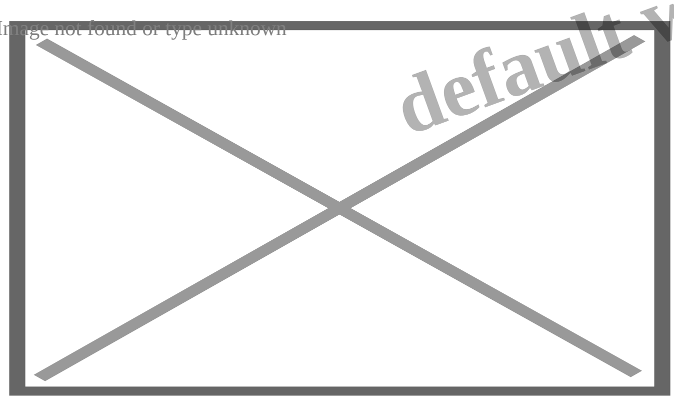


Canadian Apartment Properties stock is stubbornly strong

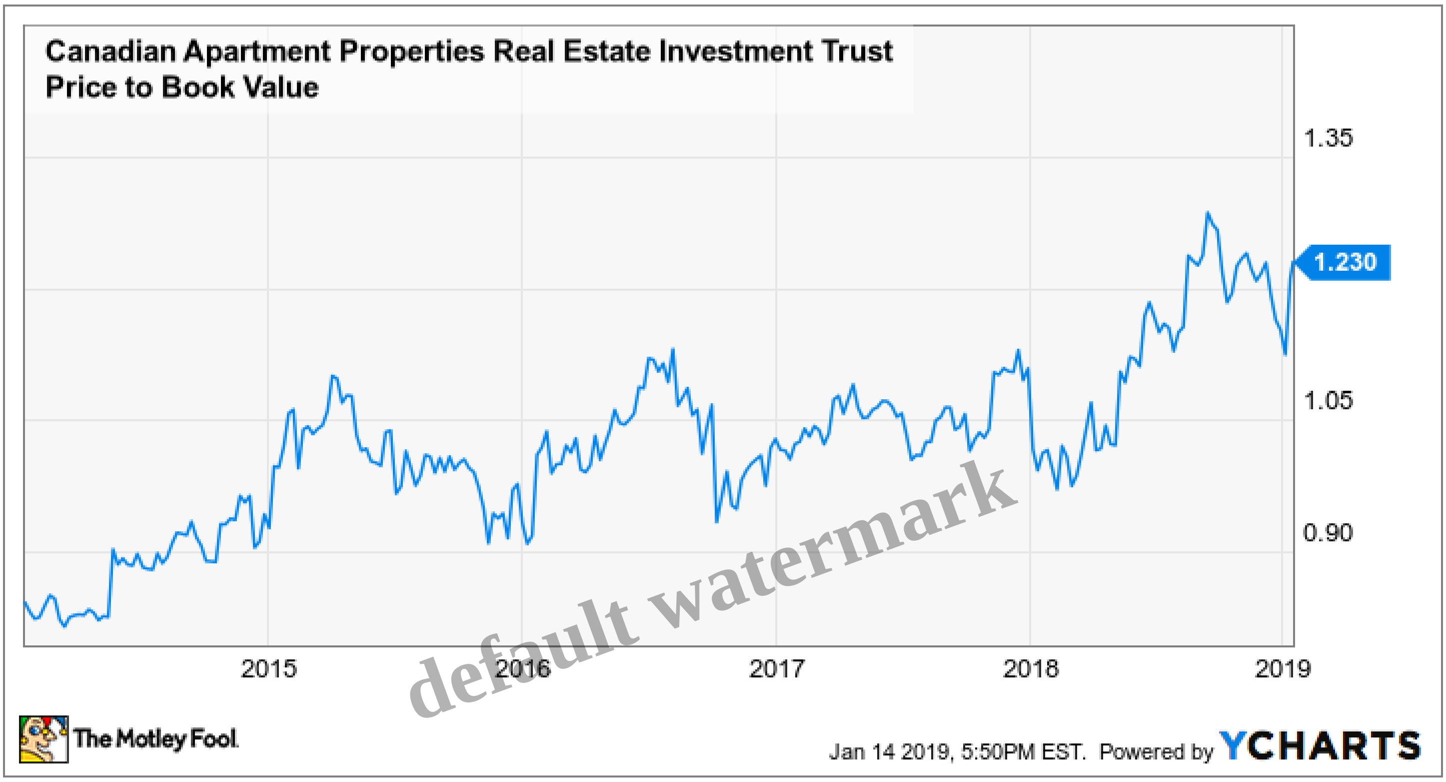
Canadian Apartment Properties, or CAPREIT, is stubbornly strong. Its strength is evident by the closing of its equity offering early this month. The offering resulted in gross proceeds of almost $287.8 million. It was issued at $45.50 per unit — a price-to-funds-from-operations ratio (P/FFO) of about 22.5.

In the last three reported quarters that ended in September, CAPREIT increased its basic funds from operations (FFO) per unit by 12.1%. This kind of growth would imply the stock is fairly valued. However, looking at a longer-term view, its five-year FFO-per-unit growth rate is about 5.6%, which would imply that the stock is actually very expensive.

The REIT's long-term normal multiple is about 15. So, I'm more inclined to believe that it's closer to being expensive than being a good value.

That said, there’s no argument that [CAPREIT is very well managed] and owns a best-in-class portfolio of multi-unit residential properties, including apartment buildings, townhouses, and land-lease communities located in or near major urban centres across Canada.

From a price-to-book (P/B) perspective, CAPREIT also looks expensive.



CAR.UN Price to Book Value data by YCharts. A five-year chart plotting CAPREIT’s P/B.

Allied Properties is another strong REIT

Allied Properties shows its strength as it trades at near its all-time high. The REIT 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 about 148 properties across 11 million square feet. It has about 11% exposure to Alberta based on gross leasable area (GLA). Most of its portfolio is in Toronto (about 42% of GLA) and Montreal (about 37%).

At $45.62 per share as of writing, Allied Properties trades at a P/FFO of about 21, while its five-year FFO-per-unit growth rate is about 2.3%, which implies the stock is very pricey.

From a P/B perspective, Allied Properties looks like it’s neither expensive nor cheap.

AP.UN Price to Book Value data by YCharts. A five-year chart plotting Allied Properties's P/B.

Investor takeaway

It makes little sense to invest in CAPREIT or Allied Properties, despite the fact that they're top-notch REITs. Investors should wait for better entry points. Because both stocks are on the expensive side, they only offer yields of about 3% and 3.5%, respectively, which is sub-par income generation. Additionally, investing at the current high valuations would imply an increased risk for your capital as well as below-average returns going forward. Instead, consider this real estate stock for higher returns and immediate income with lower risk.

CATEGORY

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kayng