Get Big Monthly Income (and Even Bigger Capital Gains Potential) From This Top REIT

Description

Less upfront yield means fewer capital gains, or so we're told. While it's seldom possible to have your cake and eat it too, there are a few oddball securities out there that can reward investors with large and reliable income to go with substantial capital gains over the long haul.

Consider **Canadian Apartment Properties REIT** (TSX:CAR.UN), or CAPREIT for short — a REIT with a smaller-than-average, but still bountiful 2.8% distribution yield and an above-average growth profile.

While REITs are required to pay out 90% of their taxable net income, which is normally a major dampener of growth, CAPREIT sets itself apart from the majority because of two advantages it has over the herd.

First, CAPREIT is operating in some of the hottest real estate markets not only in Canada but on the planet. With a handful of investment properties located in the flaming-hot Vancouver and Toronto markets, which are in a state of rental emergency with demand severely overwhelming supply, CAPREIT has the ability to call the shots.

Not only is CAPREIT able to command north of a 99% occupancy rate in such hot locations, but the trust is able to command rental rates that are slightly above the market averages, which is only possible in rental markets that are far from equilibrium. Moreover, CAPREIT has been using the funds left after paying distributions for growth initiatives to help meet the massive rental unit supply shortages faced in specific geographies, like Vancouver or Toronto, essentially guaranteeing the company an above-average return per reinvested dollar.

Second, CAPREIT has exceptional stewards that are capable of driving ROEs through the efficient management and allocation of capital. Although CAPREIT has been presented an opportunity on a silver platter with many of its properties located in red-hot real estate markets, management has shown that it's capable of capitalizing on the opportunity at hand to get the most out of the fortunate environment they've been presented with.

The results have been nothing short of outstanding, as demonstrated by CAPREIT shares that have more than doubled over the last five years. With no signs of a rental market cooldown for either Vancouver or Toronto, CAPREIT still appears to have a cleared growth runway. In fact, government regulations on more stringent mortgage regulations have paved the way for increasing rental demand in Canadian hot spots.

Although the mere 2.8% may be seen as a turnoff to prospective income investors, one has to consider the magnitude of distribution growth and stock price appreciation that lies ahead over the next five years, as the trust continues to get the most out of the rental market gold rush that is nowhere close to ending.

Foolish takeaway on CAPREIT

CAPREIT looks expensive, but when you consider the market imbalance that tilts the odds in the favour of CAPREIT and its peers, I'd say that shares have plenty of gains and distribution raises to come, possibly more than five years' worth. Vancouver and Toronto are experiencing skyrocketing rents, and these high rents are going straight into the pockets of CAPREIT investors.

Not many firms have such powerful environmental tailwinds to their back as CAPREIT has. The REIT is a buy now and on any dips that may happen over the next year.

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