Income Investors: Build Your Passive Income With This REIT

Description

The REIT sector is one of the best for income-seeking investors. Unlike most other corporations, REITs are required to distribute a large percentage of their earnings as dividends, at least if they want the tax benefits associated with the industry. With that in mind, let's look at what one of Canada's largest REITs by market cap: **Canadian Apartment Properties REIT** (TSX:CAR.UN). Here is why the Toronto-based firm is a good buy for income-oriented investors.

Core operations

Canadian Apartment owns and operates multi-unit residential properties — including townhouses, apartment buildings, and lease communities — near major urban centres. The market in which the company operates has its strengths and its weaknesses. Major urban centres are generally considered desirable places to live. Thus, rent prices usually come with a premium compared to what they would cost in rural areas.

However, apartment owners tend to perform poorly when there is a recession. The drop in demand and occupancy rates can pull down rent prices, thus directly hurting their bottom line. One way to mitigate this risk is through diversification. Canadian Apartment has been working diligently over the past few years to expand its operations beyond national borders. The company now owns several properties in the Netherlands, although these still account for a minuscule percentage of its earnings.

Recent financial results

Canadian Apartment has been growing revenues and earnings in recent years while drastically improving its efficiency. While revenues increased by 29% since 2015, net income soared by 252% over the same period. One reason for the firm's improved efficiency is its focus on shedding non-core, low-margin properties while reinvesting the proceeds into newer assets. The company's latestrecorded quarter — Q4 2018 — show an occupancy rate of nearly 99%, while average monthly rent,net operating revenues, and funds from operations all increased by 5.7%, 11.6%, and 15.5%,respectively.

Note that stable and predictable cash flows — most of which are generated from the rent charged to tenants — are one of the hallmarks of REITs. As Canadian Apartment continues to grow the number of properties it owns, the company should be able to steadily grow its earnings, too. The firm plans on continuing its European expansion both in the Netherlands and in Ireland where it acquired several properties a few years ago.

Dividends

The only thing better than strong quarterly dividend payments are strong monthly dividend payments. Canadian Apartment provides investors just that. Though the company's dividend yield of 2.76% (at the time of writing) is not stellar by industry's standard, the payout investors receive on a yearly basis is very competitive. Canadian Apartment currently has a conservative funds from operation payout ratio (by industry's standard) of 65.7%, which, along with its growing profits, is more than enough to support the company's dividends.

The bottom line

With its growing earnings, improving market position, and monthly dividend payouts, Canadian Apartment deserves your attention if you are looking to build a portfolio to generate passive income. While the company isn't without its risks, its increased geographical diversification should help reduce it. Further, Canadian Apartment isn't a very volatile stock. The Toronto-based REIT performed better than most last year even when equity markets were tanking. That's a plus considering some are now predicting we are close to a recession.

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Date
2025/08/16
Date Created
2019/04/14
Author
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