



## Does This Hot REIT Have Any Gas Left in the Tank?

### Description

Very few, if any Foolish contributors covered the July 2018 IPO of **Minto Apartment REIT** ([TSX:MI.UN](#)), an owner of 4,300 rental apartments in Ottawa and Toronto that was carved out of privately owned, Ottawa-based, Minto Properties.

I can remember thinking at the time of its IPO that the last thing TSX investors needed was another multi-family residential REIT. However, given its stock is up 38% on an annualized basis since it sold \$230 million in stock to investors at \$14.50 a share last summer, it's hard not to pay attention to the small-cap REIT.

Going over \$20 in early April, it's now dropped back down to around \$19. Hotter than a pistol, does Minto have what it takes to move back above \$20 and stay there?

I think it does. Here's why.

### Forget the yield

As REITs go, Minto's dividend yield is mediocre at 2.1% in large part due to the amount of appreciation that's taken place over the past 10 months.

**Canadian Apartment Properties REIT**, one of Canada's [largest REITs](#) of any kind and an owner of almost 51,000 residential units across Canada and the Netherlands, has a dividend yield of 2.9%.

**Killam Apartment REIT**, which is based in Halifax where I live, owns a total of 15,883 apartment units in six different provinces across Canada. It has a current yield of 3.6%. It's a stock that I've been [recommending](#) since 2017. I like it a lot.

However, this is a piece about Minto and why its stock can keep moving higher.

## Lots of acquisitions

The name of the game in residential real estate is cash flow. The more units you own, where you can up the rent and capture more cash flow, the better. So far in 2019, Minto has bought or agreed to buy three apartment buildings in Montreal, Toronto, and Calgary that will add 1,612 units to its portfolio at a cost of \$273 million, or \$301,000 per unit.

Desjardin Securities analyst Michael Markidis had some nice things to say about Minto in mid-April.

“We are encouraged by the pace of capital deployment and management’s ability to deliver on the communicated strategy, which includes: (1) entering the Montreal multifamily market and establishing immediate scale, and (2) sourcing an acquisition from the Minto Group pipeline.”

In order to pay for the 1,612 units, Minto issued almost nine million shares at \$19.60. The move reduces the Greenberg family’s ownership of the REIT from 57% to 46%.

Markidis has a buy rating on MI.UN and a 12-month target price of \$21.50, providing 13% upside to current prices.

## Increased rents help cash flow

In the second half of 2018, Minto signed more than 600 new leases on its units in Toronto, Montreal, and in Alberta. It was able to hike the rents by an average of 7.6% by sprucing up the units every time a tenant moves out.

While Ontario, which accounts for 71% of Minto’s portfolio, has rent controls prohibiting annual increases beyond a certain rate set by the government, Premier Doug Ford altered the rules slightly last November by allowing landlords with new residential units that were first rented after November 15, 2018, to raise rents as high as they want.

In the case of Minto, most, if not all of its units are older than November 2018, so they’ll be required to follow rent controls. However, any time a tenant moves out, the sky’s the limit depending on what the market will bear.

That is why you still see owners like Minto owning large numbers of suites in Ontario. If they couldn’t do that, there would be a mass exodus.

## The bottom line

As the Canadian population ages, rental apartments will become more popular with former homeowners who don’t want the responsibilities of owning a home but want some stability that comes with rent controls.

It seems counter-intuitive, but the reversal by Doug Ford could actually help REITs like Minto that tend to own mostly older buildings that would fall under rent controls and be attractive to seniors and people on fixed incomes for this very reason.

Minto should have plenty of gas left in the tank.

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