2 Residential Real Estate Stocks Offering Incredible Value

Description

When most people have money they want to invest, the first idea they have is to buy an income property. While this is a great idea, the stock market offers investors far greater selection.

By selecting a REIT, investors can diversify geographically or by asset type. REITs are also great because the investor does no work, while a team of management professionals operates the assets. Residential real estate is one of the best classes to own because it's the most straightforward to understand and most defensive of all the real estate segments.

When REITs get big enough and scale their operations, it's almost inevitable they will deliver better results than owning an income property and doing the work yourself, provided you'd invested at a reasonable valuation.

Two great residential REITs with quality assets are **Boardwalk REIT** (TSX:BEI.UN) and **Canadian Apartment Properties REIT** (TSX:CAR.UN).

Boardwalk REIT

Boardwalk has nearly 32,000 units total: +20,000 in Alberta, 6,000 in Quebec, 2,500 in Ontario, and almost 4,000 in Saskatchewan. The main attraction is the large number of units in different geographies, which gives it decent diversification to different markets.

One thing to note is that the company is highly tied to Alberta. Depending how you see that, it may be a strength or a weakness. Because of the sensitivity to commodity prices, Alberta is always a higher-risk place to operate, but because residential real estate is super defensive, and people always need a place to live, the risk is reduced. Plus, Alberta's economics have been slowly recovering, offering potential room for growth if economics can continue to improve.

The company is very well run. It's averaged a 10.5% annualized return since 2004. In addition, it also has same-property net operating income (NOI) growth of 5.3% and total revenue growth of 4.5%.

The company has made some strategic moves recently, selling non-core assets and investing into higher-quality assets in core markets. Furthermore, it has new projects and joint ventures in its development pipeline. Approximately 6,000 units across 20 sites are expected to be finished soon and added to Boardwalk's capacity.

It has been attempting to differentiate its brand and create new lifestyle brands to continue to grow. Additionally, it has been doing numerous renovation and facility upgrades. These are intended to increase revenue and decrease vacancies and incentives, especially in Alberta where incentives have been quite high.

Currently, the company has a total occupancy of 96.8%, which has been trending upward. It pays a monthly dividend which totals $1 per year and currently yields ~2.5%. It's trading at a steep discount of just 0.67 times its price-to-book ratio and is near the bottom of its 52-week range, offering a great buying opportunity.

Canadian Apartment Properties REIT

Canadian Apartment Properties is a lot more exposed to Ontario. It's the largest player in residential real estate in Canada, with a massive $7.9 billion market cap. 48% of its suites are in Ontario, while 19% are in Quebec. The two provinces, which make up about two-thirds of the portfolio, have a combined occupancy over 99%. Total company-wide occupancy is still impressive at 98.7%.

One key feature to highlight is the company's interest in manufactured housing communities (MHCs). The trust has been growing its MHC portfolio considerably, as it sees plenty of potential due to the steady income generated and low capital requirements. The trust acquired nearly 4,500 MHC sites in the first half of 2019.

The financials are very impressive; the NOI margin has been strengthening, now sitting at 62.7%. In addition, same-property NOI is up a whopping 6.3% year over year. Part of that has to do with the increase in rent prices. Average monthly rents increasing on turnover are up a staggering 14.1%, reflecting the tight housing market in Canada.

NOI from Q1 was up 10.8% year over year, while normalized funds from operations (NFFO) from Q1 were up 6.7% year over year. The NFFO payout ratio is now below 70%, while the company pays a dividend that yields 2.8%.

Bottom line

Residential real estate is one of the most defensive sectors, and these trusts own some really great assets. Whether you like Boardwalk because it's extremely undervalued and presents a good growth opportunity with the recovery of Alberta, or you like Canadian Apartment Properties for its impressive track record and high occupancy rate, you can't go wrong investing in residential.

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