3 REITs to Buy As Toronto Housing Market Heats Up

Description

The Canadian housing market is still in a decompression phase two years after the government moved to arrest the price bubbles in the sector, especially in Toronto. Also, home prices are predicted to increase by 2.2% beginning in 2019 until the first quarter of 2024 with higher demand in Toronto.

Killam Apartment Residential Real Estate Investment Trust (TSX:KMP.UN) and **Northview Apartment Real Estate Investment Trust** (TSX:NVU.UN) are two REITs that pay dividends, allowing investors to generate passive income for years.

Changing lifestyles

Killam is a good investment choice because the REIT is growth oriented. Killam is the owner, operator, and developer of apartments and manufactured home communities (MHCs) located in Atlantic Canada, Alberta, and Ontario.

With the current $2.9 billion portfolio and presence in the six largest urban centres, Killam is now one of Canada's largest residential landlords in Canada. Apartment and residential seekers are afforded a change in lifestyles. They can choose to reside in a vibrant city or a peaceful suburb.

Killam pays a decent annual dividend yield of 3.5% which the REIT can easily afford and sustain. The strategy is to expand by acquiring newer, high-quality properties and maximize on their values for higher profits. There was a 22% increase in portfolio size from 2017 to 2018.

Rental and occupancy rates are rising because of strong apartment fundamentals. The total returns reached 16.6% 2018, where the average over the last five years is 14.4%. Killam is on track to do better this year. In Q1 2019, renewal rates and turns rose by an average of 2.2% versus Q1 2018.

Killam's net operating income (NOI) is increasing because 33% come from properties that were built in the last 10 years. There is less maintenance cost plus the demand for modern, high-quality domiciles is greater.

Value creation

Northview is a dividend rock star, as the REIT pays an attractive 6.0% annual dividend at a low payout ratio of 42.7%. The share price of $27.20 appears undervalued compared to peers and is therefore a great buy for investors.

The REIT has increased exposure in Ontario, but significantly reduced presence in Northern and Western Canada. The move is part of the value creation initiatives (VCIs) that began in 2015. Northview realizes that NOI growth can best be achieved in Ontario, where the demand is higher.

The earnings in Q4 2018 were solid with double-digit growth in both top and bottom lines. Revenue grew by 11.1% year-over-year to $94 million, while total net operating income rose 13.4% to $53.7 million. More important, NOI margin expanded by 57.1%, with only an 8.0% increase in operating expenses.

The multi-family REIT's portfolio consists of 27,000 residential units and 1.2 million square feet of commercial space spread across two territories and eight provinces. Northview is present in locations with expanding populations and growing economies.

About one-third of the annual 300,000 immigrants are settling in Ontario. If you want to be the landlord to these new settlers and collect dividends for decades, you know which REITs to choose.

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Date
2025/07/03
Date Created
2019/07/15
Author
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