A Perfect Scenario for This High-Growth REIT

Description

InterRent Real Estate Investment Trust (TSX:IIP.UN) had a fantastic year last year, with a return of over 35%. The company, which specializes in rental apartments in southern Ontario and Montreal, has benefitted from being in the right place at the right time.

The average vacancy rate of apartments across Toronto is approximately 1.5%. The incredibly low vacancy rate and the lack of affordable homes to purchase has created a perfect scenario for this high-growth REIT.

Expanding into Montreal

In August, InterRent is scheduled to close on three high-rise apartments in Montreal. This purchase of $155 million will increase the company's Montreal properties to 2,700 suites, or 27% of its total portfolio. Montreal's population is expected to continue to grow. The city's year-over-year population growth rate of 1.6% is currently outpacing the national average for Canada of 1.4%. Montreal is the sixth-fastest growing metro area in North America.

InterRent's business model

InterRent is renowned for buying and renovating undervalued properties. The company typically upgrades the facilities to attract new tenants. Often these upgrades include eco-friendly enhancements, such as electric car charging stations. InterRent employs an Energy Management Department to ensure all properties are as energy efficient as possible. These efforts especially appeal to climate-conscious millennials.

The company is primarily focused on markets with historically stable occupancy. InterRent's business model is to buy properties within close proximity to major cores to create efficient and cost-effective property management. The company typically dismantles the existing property management and replaces it with property management more in line with InterRent's core business plan.

InterRent is not opposed to selling properties that no longer fit its model. Earlier this year, InterRent sold its entire portfolio of properties in Sault Ste Marie, Ontario. Regarding the sale, CEO Mike McGahan said, “Despite our strong operating history in our Sault Ste Marie portfolio, this sale continues to follow through on our stated strategy of recycling capital from our non-core markets and into new opportunities within our core markets.”

New joint venture

The company entered a partnership with **Brookfield Property Partners** and CLV Group to develop an 8.5-acre, mixed-use development in Burlington, Ontario. The multi-phase development will feature residential, retail, and amenity space. InterRent will own a 25% interest in the joint venture and will receive fees for the provision of property management and residential leasing services.

Dividend and distribution-reinvestment plan

Although InterRent’s current dividend of 2% is well below other REITs, the company has increased its dividend for the past seven years. The company also offers a distribution-reinvestment plan that allows enrolled unitholders to reinvest their distributions to buy shares with a 4% discount.

While most REITs are not considered high growth, InterRent bucks this trend. InterRent has provided investors a capital gain of over 150% in the past five years. As of this writing, the stock is trading at $14.62, near its all-time high. InterRent has a market cap of $1.78 billion. If you are looking to diversify your portfolio with a REIT with a strong balance sheet and a conservative management team that is focused on sustainable growth, InterRent is an excellent choice.

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