Passive-Income Seekers: 2 Residential REITs I'd Buy Today

Description

Finding high-quality investments is easy to do when looking in residential real estate. The sector has been extremely rewarding the last few years, as occupancy rates continue to increase while Canadians try and find places to live.

The red-hot housing markets in many of the major cities across Canada has forced a number of people to turn to renting, which has had a positive impact on residential real estate funds.

With no quick fix that's plausible, it's more than likely that the strong market fundamentals will continue for the foreseeable future. This makes residential real estate one of the top sectors to invest in going forward.

Two top residential real estate investment trusts (REITS) are **Killam Apartment REIT** (TSX:KMP.UN) and **Northview Apartment REIT** (TSX:NVU.UN).

Killam

Killam is a growth-oriented REIT that owns, operates, and develops apartments as well as manufactured home communities (MHCs). The company's portfolio is concentrated in Atlantic Canada, Alberta, and Ontario.

It has three pillars to its strategy. It wants to increase the earnings on already existing properties, expand the portfolio, and diversify geographically, and it wants to continue to develop high-quality assets in key markets.

It is increasing the earnings on its already existing portfolio by investing in upgrades and renovations, which allows it to capture more rent from its properties. In total, the portfolio is made up of nearly 200 apartment buildings and 37 MHCs.

It is expanding the portfolio by making strategic acquisitions in key markets at valuable prices, and it's developing new assets through its growth pipeline.

So far, the strategy has been working out, and the company has been able to capture a 5.7% increase in average rental rate. Its portfolio is also very stable with an occupancy rate over 97% in its apartments.

The strong market fundamentals in residential real estate has resulted in the company using less incentives, which has increased its margins.

The debt levels have stayed pretty much consistent the last few years, declining slightly, showing that it can manage its debt no problem. Currently, its interest coverage ratio is more than 3.2 times.

Killam regularly increases the dividend and keeps it at a sustainable rate, with its funds from operations (FFO) payout ratio at just 84%. Today, the dividend is yielding roughly 3.3%

Northview

Northview has been focusing on development, acquisitions, as well as organic growth. It is positioned to provide sustainable growth in its net asset value as well as its dividend.

Since 2017, it has posted same-door net operating income growth in every quarter, and its occupancy has ticked up to nearly 94%.

Its assets in northern Canada complement the rest of the portfolio well and give it huge returns. On top of some of the highest occupancy rates in its portfolio, the northern assets also provide the highest cap rate, at roughly 9%, and its average monthly rents far outpace the rest of the portfolio.

Northview will continue to grow its net asset value and earnings through strategic acquisitions as well as organic growth.

With a dividend that has an attractive yield of about 5.5% and an FFO payout ratio around 75%, the fund is highly stable and will provide passive income for years.

Bottom line

Investing in residential real estate is always a safe choice that also provides decent growth. With the market fundamentals consistently pushing up prices due to a lack of residential real estate supply, rent levels are being increased dramatically, which is rewarding unitholders of REITs accordingly.

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TICKERS GLOBAL

1. TSX:KMP.UN (Killam Apartment REIT)

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