



Revealed: The Smart Money Is Buying This 6.7% Yielding REIT

Description

For years, real estate genius K. Rai Sahi was able to operate in the background. That's starting to change, however.

The 73-year-old East Indian immigrant has run **Morguard Corporation** ([TSX:MRC](#)) for the better part of 20 years now, growing it into a major real estate conglomerate.

The company's over 200 property portfolio spans everything from residential property to office towers to hotels. The latter part of the business will soon expand further when Morguard officially acquires **Temple Hotels**.

Morguard does things a little differently than many other real estate investors. The parent company pays virtually [zero dividends](#), choosing instead to reinvest its earnings into more property.

This has numerous advantages, including giving investors a way to invest in real estate while minimizing taxes. But because most real estate investors want yield — not to mention the lack of liquidity offered by the stock — Morguard shares trade at a large discount to fair value.

This doesn't bother Sahi at all, however. He's laser focused on growing the company, constantly putting cash to work in what he views as undervalued real estate opportunities.

He's the epitome of a long-term investor; Morguard simply isn't interested in buying a distressed property and flipping it a few years later. In fact, Morguard still owns assets Sahi acquired in the late 1990s.

Morguard's CEO has acquired a certain aura in the real estate sector over the last few years. If he's buying — whether its an asset class or shares of a particular REIT — investors are paying attention. Let's take a closer look at a particular REIT Sahi has been buying recently to determine exactly what he sees in this company.

The purchase

Automotive Properties REIT ([TSX:APR.UN](#)) recently disclosed that Sahi now owns more than 4.1 million shares of the company through various entities controlled by him, which works out to a 14% stake in the company.

That's a big vote of confidence in a REIT many investors haven't even heard of.

Automotive Properties buys and leases out car dealership real estate back to companies that operate these businesses. This is a big growth market for one big reason: various operating companies are in the midst of consolidating Canada's incredibly fragmented car dealership market.

These operators can acquire a dealership and immediately free up much of the value by selling the property back to Automotive Properties.

Since its 2015 initial public offering, the company has more than doubled in size. The portfolio is now up to 61 properties spanning more than 2.3 million square feet of gross leasable area. The company has successfully diversified both across Canada as well as reducing its dependency on Dilawri, its main tenant.

One main difference between Automotive Properties and other types of real estate is the company's ability to sign long-term deals with its tenants.

In fact, the average lease is longer than 10 years and the company only has one tenant than can leave before 2026. And it's not like operating a retail store, which can easily switch to a better location. A car dealership is pretty much stuck where it is.

Despite offering what many analysts view as the best growth profile of any REIT on the **TSX**, Automotive Properties shares aren't terribly expensive. Shares currently trade hands for around \$12 each at writing.

The company should generate \$1.05 per share in funds from operations in 2019, giving shares a valuation of under 12 times a REIT's version of earnings, which is [quite cheap](#).

The bottom line

It's easy to see why Sahi is bullish on Automotive Properties REIT. The company offers excellent growth potential, non-replaceable real estate, excellent rent stability, and trades at a reasonable valuation.

Oh, I almost forgot the best part. It offers a sustainable 6.7% yield, a payout that could very well start creeping higher soon.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:APR.UN (Automotive Properties Real Estate Investment Trust)
2. TSX:MRC (Morguard Corporation)

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