



Grab Onto This Recession-Safe REIT for the Long Run

Description

With stock markets reaching all-time highs in January, new conflicts in the Middle east, and U.S. elections on the horizon, investors may be wondering if this bull market can keep going up forever. While North American stock markets appear to be resilient, despite the ever-changing economic and political news, it is never too early to take a look at what's at risk [if the stock market takes a bearish turn](#).

The good news for investors today is that with TSX-listed **BSR REIT** ([TSX:HOM.U](#)) you can be set up for success no matter if the market stays bullish or takes a turn for the worse. BSR REIT owns an internally managed portfolio of 40 garden-style (i.e., resort-quality pool, fitness, and community facilities) multi-family communities in the southeastern U.S. states (Texas, Arkansas, Oklahoma).

Many of these communities are located in top population- and employment-growth regions of the United States. Management has recently focused on increasing the quality of their portfolio in major centres, such as Houston, Dallas, and Austin. As a result, their portfolio's weighted average age has decreased from 29 years old to 23 years old.

Why is this a good investment for the long run? First, the shorter-term nature (one year) of multi-family leases means BSR is able to raise rents quickly when the economy is good. [If interest rates were to rise in quick succession](#), BSR can rapidly raise rents to compensate the potential increase in its financing costs. Being in communities of strong economic and population growth should also help ensure long-term demand for their units. Improving the quality of the communities should also help to increase the spread in NOI margins, as BSR provides extra amenities and services to newly acquired communities.

Secondly, BSR is cheap. Presently, it is trading at a 4% discount to NAV compared to its U.S. peers' 6% premium and trades at a 17.7 times AFFO multiple compared to U.S. peers of 22.8 times.

Thirdly, BSR's management team has a lot of skin in the game, owning close to 47% of the company. If the company hurts, they hurt; if it succeeds, then management and investors succeed. Numerous times, management has asserted the quality of their internal management platform, and they believe

the market still does not take full account of their ability to accrete long-term value.

Fourthly, BSR pays a tasty 4.36% yield with an AFFO payout ratio of only 75%, which means there is still some room to grow. Being underlevered with a debt-to-gross book value of only 46% (its long-term range is 50-55%), BSR should have plenty of opportunities to continue to increase the quality and quantity of its portfolio over the next few years. This should lead to long-term growth in cash flow and opportunities to increase the dividend.

Whether the markets dip or rise, BSR REIT stands to provide shareholders the opportunity to own a high-quality operating and acquisition platform that leaves cash in your pocket every month. While every stock has its risks in a down market, plan to hold BSR for the long run, and you won't regret you did.

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