



3 Reasons to Invest in one of Canada's Largest Residential REITs

Description

Sustained high employment rates, a consistently growing population and a positive economic growth rate in 2020 are strong factors that support increased demand for multi-family accommodation, especially as house prices continue rising beyond affordability for Canada's middle-income households.

Investing in residential real estate operators remains one of the high return long-term plays today, as strong capital gains could accrue through rising property prices and strong rental rates increases.

One such strong investment candidate available to retail investors today is an outperforming **Killam Apartment Real Estate Investment Trust** ([TSX:KMP.UN](https://www.killamreit.com)), which has been significantly benefitted from the above factors recently.

Killam Apartment REIT

For a pure bet on, and based on a strong faith in Canada's growing housing demand and rising home prices that may be forcing new families and young adults to favour renting than ultimately buying homes, Killam Apartment REIT could be one of the best sector names to own this new decade.

The trust is one of the country's largest residential landlords with a strong and fast growing portfolio of 241 properties, including 16,178 apartments on 197 apartment buildings; 7 commercial properties and 5,427 manufactured home units in 37 manufactured home communities.

Three reasons could support buying the REIT's units for a long-term hold.

Well-covered distribution

Killam pays one of the most covered and secure monthly distributions that averaged 72% of its adjusted funds from operations (AFFO) during the third quarter of 2019, and 83% of AFFO during the first nine months of last year.

Because of the strong investor valuation of the units, the \$0.055 per unit monthly payout yields 3.34%

annually, but there's a boost from the distribution reinvestment program (DRIP) that adds 3% additional units to those purchased under the drip.

Growing free cash flows

Supported by a strong 97.3% occupancy rate and rising same property net operating income (NOI), the trust reported a 4.5% growth in AFFO in the last reported quarter.

Same property net operating income growth was 7.8% in Ontario and 5.5% in Halifax to power the portfolio's 4.5% growth in NOI year over year.

This growth was possible because of the portfolio's ability to retain tenants and to grow its occupancy rate even as management kept increasing average rental rates in the short term.

Interest costs remain subdued with a low average mortgage interest rate of 2.91% for the portfolio during a time when average rental rates have generally increased by 5.7% on new leases and 2.1% on renewals.

Management's rent optimization strategy, a reduction of rent incentives and the repositioning of some portfolio units has seen strong same property revenue growth amid high occupancy, which may continue to support growing valuation multiples on the units.

Strong NAV value growth

Killam is a strong developer, redeveloper and strategic acquirer of residential properties.

Management had targeted 300 repositions for 2019 where renovations generated monthly rental lifts averaging 30% per unit. The program is expected to generate an additional \$1 million in net operating income annually and contribute \$20 million in net asset value growth — all from a \$5 million investment.

I'm looking forward to some good performance numbers in the trust's upcoming full-year results expected on February 12.

Two issues to ponder

Management has relied on rent escalations to grow NOI and AFFO in the short term. Although that strategy may not be sustainable in the long term, new developments, accretive acquisitions and the maintenance of strong occupancy levels and charging market rates will be the key drivers of long-term funds growth and distribution increases. Killam is certainly capable of delivering on these facets.

Second, the current yield on cost to a new investor today could be deemed low at 3.34%, which requires a substantial minimum investment to provide reasonable monthly cash flows.

Capital gains could therefore be very important return drivers going forward. However, total returns on this ticker have outperformed some [high yielding offerings](#) recently.

While past performance may not predict future returns, the trust has delivered a strong 130% in total gains over the past five years. Its business strategy and management quality must be very good.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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

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