2 Canadian Residential REITs: Down-to-Earth Valuations

Description

Most investors would agree that the best Canadian residential REIT stock is **Canadian Apartment Properties REIT** (TSX:CAR.UN) or CAPREIT. However, there are more REITs to consider in the space.

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Although the Canadian residential REIT space is a highly-defensive asset class, the recent price actions of CAPREIT and its peers may indicate otherwise. On closer inspection, the market crash is just bringing their stratospheric valuations back down to earth.

Top Canadian residential REIT: CAPREIT

CAPREIT is one of the largest REITs in Canada. It manages roughly 65,000 rental apartment and townhouse suites and manufactured home community (MHC) sites in major urban geographies across Canada, the Netherlands, and Ireland.

It's the second-largest MHC owner in Canada with 11,680 sites across 72 communities across the country.

The REIT's portfolio has always seen a consistently strong performance. For example, in 2019, its portfolio occupancy was 98.2% and the average monthly rent for its portfolio was $1,084.

Although these were down from 2018's 98.9% and $1,103, respectively, CAPREIT managed to improve its net operating margin by 130 basis points to 65.3%. This helped boost its 2019 net operating income by 13% to nearly $778 million.

The Canadian residential REIT's quality portfolio is demonstrated by recent rent increases of 2.1% on renewals and 13.5% on turnovers. The rent increases help improve its payout ratio which is about 65%. CAPREIT's yield of roughly 3.7% is therefore safe.

The Canadian residential REIT stock tends to trade at a high valuation. When it traded in the $56range earlier this year, it had a whopping multiple of about 26 times its cash flow.

At $37.85 per share at writing, CAPREIT trades at a decent forward multiple of about 16.5. Analysts have a 12-month average price target that's 60% higher. Interested investors can therefore consider to easing into the stock and buy more if it falls to the low $30s for a multiple of close to 15.

High-Growth Canadian residential REIT: InterRent

InterRent REIT (TSX:IIP.UN) is a Canadian residential REIT that can more easily grow at a faster rate than CAPREIT due to its smaller size.

Its total suites increased by 9% in 2019 to 10,164 suites, while it increased its average rent per suite by 6% to $1,260 (as of December).

Its occupancy rate was 95.6% in December, 100 basis points lower than it was a year ago. That said, InterRent was able to improve its net operating margin by 160 basis points to 66.2%. As a result, its 2019 net operating income climbed 17% to more than $96 million.

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On a diluted basis, InterRent REIT managed to increase its funds from operations (FFO) per share by 8.1% in 2019. On an adjusted basis, its FFO per share climbed 9.5%.

At $11.37 per share at writing, InterRent trades at a forward multiple of about 21. Analysts have a 12-month average price target that's 64% higher. Interested investors can therefore start buying the stock and buy more if it falls to the $10 or lower for a multiple of close to 18.5.

The Foolish bottom line

Both Canadian residential REITs are getting attractive for new investments. However, the bear market can drag them even lower. Divide your cash for multiple buys at opportunistic buy ranges if you're an interested buyer.

At the end of the day, investors should view them as growth stocks (and aim for price appreciation) than income stocks, as they currently yield only 3.7% and 2.7%, respectively, while there are tonnes of safe higher-yield stocks available.

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2. TSX:IIP.UN (InterRent Real Estate Investment Trust)

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