# Office REITs Are Here to Stay: Buy This Quality Dividend Stock in August 2020

## Description

Office real estate investment trusts (REITs) are here to stay. Although some believe that more people will work from home going forward, others think it's not as effective to work at home. It's more difficult to collaborate when working at home. Additionally, kids or pets can be distracting.



Chances are that the new normal will be somewhere in the middle — people might go to the office a few days per week. This can ensure social distancing in the office by limiting the percentage of people coming into work on a given day.

Just yesterday, **Allied Properties REIT** (TSX:AP.UN) reported its second-quarter results, which shed more light on the COVID-19 disruptions on its office property-focused portfolio so far. The REIT is holding up well, but near-term challenges are present.

I'll highlight Allied's results for Q2 and the first half of the year (H1).

## Q2 results

For Q2, Allied collected 94.5% of its total rent. 3.6%, which was not collected, was deferred; primarily, these were storefront retail users, which contribute roughly 7.3% of its total rent.

Allied's adjusted EBITDA, a cash flow proxy, climbed 13.8% to $85.4 million. Its funds from operations (FFO) per unit fell 3.6%, which resulted in a payout ratio of 74% for the quarter.

The office REIT was able to renew or replace leases for 71.9% of the space that matured in the quarter. As a result, its net rent per square foot rose by 16.1% for the affected space. This suggests that its assets are of high quality and also results in a rental portfolio having a weighted-average lease term of 5.8 years.

The stable REIT ended Q2 with a net asset value (NAV) increase of 10.8% to $48.52 per unit versus Q2 2019. Its debt levels also increased but were still manageable.

Total indebtedness ratio rose by 3.5% to 29.3%. Its net debt, as a multiple of annualized adjusted EBITDA, was elevated from 5.7 to 7.6 times. Additionally, its interest coverage ratio fell from 3.4 to 3.3 times.

## H1 results

For H1, Allied's adjusted EBITDA increased by 16.4% to $171 million. Its FFO per unit fell marginally by 0.2%, which resulted in a payout ratio of 72.4%.

In H1, Allied had 94.7% of leased area and 94.4% of occupied area, down 1.6% and 1.8%, respectively, year over year.

It renewed or replaced leases for 67.9% of the space that matured in the first half of the year. Consequently, its net rent per square foot rose by 19.3% for the affected space, up 2.1% from a year ago — again, another indicator of high quality.

Therefore, its average in-place net rent per occupied square foot improved marginally by 0.4% to $23.29.



## 2020 guidance

The income-generating REIT maintained its guidance for 2020 from Q1. Due to the global pandemic and its negative impact on the economy, Allied "calls for flat to mid-single-digit percentage growth" in its same-asset net operating income and FFO per unit.

Assuming its FFO stays flat this year, its payout ratio would be about 73%. So, its yield of about 4% seems safe.

## Future growth

Allied sees future growth in its urban-data-centre (UDC) space, which currently contributes to about 15.2% of its gross monthly rent. "Users of Allied's UDC space experienced a surge in activity in the second quarter, boosting its ancillary rental revenue by $414,000 in the quarter alone, at least half of which will be recurring. Leasing was active across Allied's UDC portfolio, boosting … the leased area of the UDC portfolio as a whole to 89.4%."

Management is working with users who need increased allocations of power. This requires investment from Allied, but management expects significant returns and growth in recurring rental revenue, which benefits the REIT long term.

## The Foolish takeaway

If you're looking for a depressed but solid stock that pays a monthly dividend, consider buying some Allied REIT units this year.

Currently, analysts have an average 12-month price target of $52 on the stock, which represents almost 28% near-term upside potential. Its 4% yield will also boost overall returns.

**CATEGORY**

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

**TICKERS GLOBAL**

1. TSX:AP.UN (Allied Properties Real Estate Investment Trust)

**PARTNER-FEEDS**

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA



**Category**

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

**Date**
2025/07/21
**Date Created**
2020/07/31
**Author**
kayng