



Booming Industrial Real Estate: 1 Value Stock Set to Benefit

Description

Madison Pacific Properties (TSX:MPC) is a [real estate company](#) whose principal business segment is the investment in and development of income-producing real estate properties. The company's commercial properties are currently located in British Columbia, Alberta, and Ontario with approximately 80.8% of the rentable area located in Metro Vancouver, 1.1% in the rest of British Columbia, 14.7% in Alberta, and 3.4% in Ontario. Madison has 10 full-time employees.

Madison also owns a 50% interest in a multi-family residential apartment and undeveloped residential lands in Mission, British Columbia. The company has a committed occupancy rate for Madison's industrial property portfolio of 98.8%. Overall occupancy is over 98.6%, excluding occupancy of the company's 50% owned 54-unit apartment building, which has an occupancy of 52 units.

Diversified real estate portfolio

Further, the company's real estate portfolio is diversified over different product types and locations. Madison places emphasis on a high level of maintenance for the company's properties. Through the combination of well-located and well-maintained properties, Madison is positioned to [achieve market rental rates](#) within the markets in which it operates.

Also, Madison has a 50% interest in the Silverdale Hills LP, which owns approximately 1,380 acres of undeveloped residential lands in Mission, British Columbia. In October 2018, the Silverdale obtained approval from the District of Mission to develop 161 townhomes and 65 single-family lots, which consumes approximately 38 acres of land inventory. Development of this first project is managed by the other 50% partner, a major residential developer and construction commenced in the fourth quarter of fiscal 2020.

Consistent dividend policy

As a regular payer of dividends, Madison initiated the first formal dividend policy in 2007. An annual dividend of \$0.105 per share is payable to each shareholder semi-annually in February and September

of each year. Dividends were paid under this policy from 2008 to 2020. The company has also paid three special dividends, \$0.23 per share in February 2009, \$0.35 per share in October 2011, and \$0.3415 per share in September 2016.

Madison's financing includes some indebtedness with interest rates set on a floating rate basis, which could result in fluctuations in Madison's cost of borrowing. Madison has mitigated interest rate risk by refinancing 97% of the company's debt on investment properties at fixed rates ranging from 2.77% to 4.13% per annum and staggering maturities up to five years so that no more than 33% of such debt matures in one year.

Risk mitigation

The company has not experienced any difficulties in renewing mortgages as they have become due. Madison also mitigates interest rate risk by entering interest rate swaps. Recently, the company entered interest rate swaps with Canadian chartered banks on six mortgages to reduce the impact of fluctuating interest rates and fix the company's interest rates. Madison anticipates holding the mortgages and interest rate swap contracts until maturity.

Furthermore, Madison has formal procedures to review and monitor environmental exposure on an ongoing basis and conducts thorough environmental due diligence as part of the company's acquisition process. Madison has made the necessary capital expenditures to ensure compliance with environmental laws and regulations. This level of due diligence should serve shareholders very well over the long term given the stability of Vancouver real estate.

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