



Big Changes Coming to 1 Canadian REIT: Here's What Analysts and Insiders Think

Description

H&R REIT ([TSX:HR.UN](#)) will be very different soon. If you own or are thinking of owning the Canadian REIT, read this article to get the key information you need to know.

The diversified real estate investment trust (REIT) experienced declining funds from operations (FFO) on a per-unit basis even a couple of years before the pandemic hit. The REIT was simply too heavily exposed to retail and office real estate. Malls were already on a decline before the pandemic, threatened by the rise of e-commerce. The pandemic made businesses question whether offices are needed. At least businesses are thinking of using offices differently after the pandemic (e.g., more open space and social distancing). The REIT is about 22% and 8%, respectively, in multi-residential and industrial properties at the end of the second quarter.

What's happening at the Canadian REIT?

On October 27, H&R REIT announced that it was making some big changes. It'll be exiting retail and office properties, but it won't happen in one go. Ultimately, the Canadian REIT is aiming to become a multi-residential and industrial REIT in five years. The geographical diversification will be about a third across each of the Sunbelt U.S. area, the Greater Toronto Area, and U.S. gateway cities. Other than its development pipeline in multi-residential and industrial properties, H&R REIT also expects to make acquisitions.

To put the [transformation](#) in motion, first, H&R REIT will be spinning off Primaris in late December or early January as a new publicly traded REIT that's focused on owning and managing enclosed malls in Canada. It will be a tax-free spin-off. Second, it'll sell about \$600 million of grocery-anchored and essential service retail and monetize its \$470 million equity interest in Echo Realty LP.

Third, it'll also exit a big chunk of office assets — \$2.3 billion worth. The second and third items will generate gross proceeds of roughly \$3.4 billion over time. The sales will happen in synchronization to match capital funding requirements. The Canadian REIT will keep \$1.4 billion of office properties to

redevelop them into Class A multi-residential and industrial properties.

Prior to announcing the above, H&R REIT had already sold the Bow office tower in Calgary, Alberta, and the Bell office campus in Mississauga, Ontario, for gross proceeds of just under \$1.5 billion.

What analysts and insiders think

On October 29, **National Bank** Financial increased its target price on H&R REIT from \$19.50 to \$20.50 and rated the stock as “outperform.” On November 17, **TD Securities** raised H&R REIT’s price target from the previous \$19.50 to \$20 and gave it a “buy” rating. The average 12-month price target of the stock across six analysts is \$19.54, which suggests 22% near-term upside potential.

Directors are instilling confidence in interested investors in the [Canadian REIT](#). On November 26, Director Alex Avery bought \$518,400 worth of common stock at an average price of \$16.20 per unit. On November 30, Director Ronald Rutman purchased \$235,401 at an average price of \$15.69 per unit.

What should you do?

Because H&R REIT has realized an excessive amount of capital gains this year, it will be paying out a special distribution of \$0.73 per unit (\$0.63 in units and \$0.10 in cash) to unitholders of record as at December 31, 2021. This means that those who will be receiving the special distribution will likely end up with the spin-off REIT as well. If investors do not want to own the new retail REIT stock, they should postpone owning H&R REIT until after the spinoff occurs. There’s no doubt the REIT will be able to trade at a higher multiple once the multi-year transformation is over.

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