Another Reason for Retirees to Load Up on REITs!

Description

On Friday of last week, shares of **Pure Multi-Family REIT LP** (TSXV:RUF.UN) declined by close to 10% after the company announced that it would end the efforts to be bought by a larger suitor. Essentially, investors seeking an arbitrage opportunity are no longer willing to stay the course, as the expected" buyout" was not going to materialize.

The new lower price per share is an incredibly attractive opportunity for those sitting on the sidelines willing to invest in very high-quality assets managed by a team with a winning record. As a reminder, the team that started this operation was very similar to the team at Pure Industrial Real Estate Trust, which was recently acquired by Blackstone. Clearly, the "smart" money stays close together.

As this name is expected to trade for a long time yet, investors must understand what they are getting for their money. As the monthly dividend is paid is U.S. dollars, the yield is no less than 5.3% at the current price of $8.50 per share. In addition, investors buying at these levels will receive an equal amount of tangible book value for each dollar that they put up. Essentially, shares are trading at their current liquidation value!

As the firm continues to come into its own and properties become fully rented (throughout the entire year), the payout ratio is beginning to stabilize, and the opportunity to reach a greater market is starting to become very true. At a current market capitalization of $675 million, the company can now focus on next steps, as it will need to stand on its own. Currently listed on the venture exchange, the graduation to the Toronto Stock Exchange will bring about many new potential investors.

In spite of no longer actively seeking a buyer, the company can still be a very profitable investment for many years to come — not only as an individual security, but also as part of the REIT sector. As interest rates have increased on several occasions, many investors are starting to shy away from this sector as it is mainly driven by income. To boot, the difference between a 5% yield and the risk-free rate of return has declined, as the risk-free rate has increased. To offset this, many REITs have seen declines in the share prices.

As is always the case, investors overweight the most recent news and don't pay enough attention to future expectations. After seeing interest rates increase on several occasions, the federal reserve (both in Canada and the United States) will not be able to go much further without sending the country in bankruptcy. As a reminder, corporations are not the only ones in debt. Governments have also borrowed a lot of money!

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