

# Canada's hot REIT sector: Here's what investors should focus on

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## WHAT ARE WE LOOKING FOR?

My associate Allan Meyer and I thought we would analyze Canadian real estate investment trusts using our investment philosophy focused on safety and value.

The sector has performed well in the past year. While Wednesday's announcement by the Bank of Canada to keep its key interest rate unchanged was expected, many market observers are anticipating a rate cut before the end of the year, in line with other central banks worldwide. Regardless, a continuing low-rate environment helps the REIT sector in a few ways: It makes debt financing less of a burden, it attracts income-oriented investors and generally increases the REITs' net asset values.

## THE SCREEN

We started with Canadian-listed REITs with a market capitalization of \$1-billion or more, sorted

## Select Canadian-listed REITs

REAL ESTATE INVESTMENT TRUST	TICKER	MKT. CAP. (\$ BIL.)	RECENT PRICE (\$)	DISTRIB. YIELD (%)	DISTRIB. PAYOUT (%)	DEBT/EQUITY (%)	P/AFFO	OCCUP. RATE (%)	52W TTL. RTN. (%)
Canadian Apt. Prop. REIT	CAR-UN-T	8.6	53.55	2.6	66.7	60.9	24.7	98.9	18.8
RioCan REIT	REI-UN-T	8.1	26.48	5.5	79.5	79.6	14.6	97.1	11.0
H&R REIT	HR-UN-T	6.5	22.63	6.1	76.1	91.0	12.5	94.0	18.6
Allied Properties REIT	AP-UN-T	6.1	52.50	3.1	70.7	40.2	23.2	96.9	24.6
SmartCentres REIT	SRU-UN-T	4.5	31.66	5.7	79.1	91.3	13.6	98.0	8.1
Choice Properties REIT	CHP-UN-T	4.3	13.87	5.4	72.5	223.1	13.6	97.7	17.7
Granite REIT	GRT-UN-T	3.2	63.71	4.4	75.5	44.3	16.9	99.1	22.4
Dream Global REIT	DRG-UN-T	2.8	14.50	5.6	76.6	83.3	13.9	91.4	5.0
Cominar REIT	CUF-UN-T	2.3	12.51	5.8	64.6	124.1	11.2	89.2	9.8
Boardwalk REIT	BEI-UN-T	2.0	44.19	2.3	40.5	90.1	17.9	96.1	-8.7
InterRent REIT	IIP-UN-T	1.9	16.02	1.8	56.6	74.5	30.6	96.6	43.1
Killam Apartment REIT	KMP-UN-T	1.9	20.51	3.2	66.5	116.2	20.8	97.1	34.0
Northview Apartment REIT	NVU-UN-T	1.8	29.61	5.6	77.9	127.5	14.2	93.5	24.1
Artis REIT	AX-UN-T	1.7	12.40	4.4	42.7	110.5	9.8	92.1	6.2
Dream Office REIT	D-UN-T	1.5	27.26	3.7	61.1	85.5	16.7	93.0	17.2
NorthWest Hlthcare Prpty. REIT	NWH-UN-T	1.5	11.63	6.8	88.7	308.1	12.9	96.7	10.5
Summit Indust. Income REIT	SMU-UN-T	1.5	12.93	4.2	85.4	72.7	20.5	99.4	54.7
CT REIT	CRT-UN-T	1.4	14.68	5.3	66.6	199.3	12.8	98.7	15.5
Crombie REIT	CRR-UN-T	1.4	15.64	5.7	74.4	158.4	13.1	96.0	26.1
WPT Industrial REIT	WIR-U-T	1.1	18.45	5.5	84.1	84.8	15.6	99.3	6.1
<b>Average</b>				<b>4.6</b>	<b>70.3</b>	<b>113.3</b>	<b>16.4</b>	<b>96.0</b>	<b>18.2</b>
<b>Median</b>				<b>5.3</b>	<b>73.5</b>	<b>90.6</b>	<b>14.4</b>	<b>96.8</b>	<b>17.4</b>

Source: Eikon & Wickham Investment Counsel Inc.

from largest to smallest. This is a safety factor as larger companies tend to have more diversified revenue streams, stability and liquidity.

REITs are known for providing shareholders with a high level of income through their distributions. Allan and I love to get paid while we wait for capital appreciation and distributions generally reflect safety and stability.

Distribution yield is based on the projected annualized distribution divided by the share price.

When analyzing REITs, adjusted funds from operations (AFFO) is a key metric and often considered a more accurate predictor than measures based on earnings or cash flow. It is the funds from operations with adjustments made for capital expenditures used to maintain the

underlying real estate. Distribution payout ratio is the projected distribution payments divided by the AFFO. A lower number is preferred and may signal the ability for a future distribution increase. Anything approaching or more than 100 is a warning sign.

Debt-to-equity is a leverage ratio and safety measure. A smaller number translates to lower lev-

erage or debt levels.

The price-to-AFFO ratio is the current share price divided by AFFO. It is a valuation metric: the lower the number, the better the value. We then looked at the occupancy rate, which is the percentage of rented spaces compared with available space. A higher number is better.

Lastly, we've included the 52-week total return to track performance, and the average and median numbers for easy comparison.

## WHAT WE FOUND

RioCan REIT and SmartCentres REIT look attractive on most safety and value metrics. Northwest Healthcare Properties REIT scores well for value and income, but is also the most levered name on the list. Allied Properties REIT is the least levered. Artis REIT boasts the best value.

Exchange-traded funds are an option for investors who like the sector but prefer to diversify away individual security risk. Two such funds are BMO Equal Weight REITs Index ETF (ZRE) and CI First Asset Canadian REIT ETF (RIT).

Investors should contact an investment professional or conduct further research before buying any of the securities listed here.