INSIDE THE MARKET

A REIT driven by consolidation

Despite hitting a low in mid-December, the unit price has since recovered, and analysts are forecasting more gains ahead

BRENDA BOUW

When **Automotive Properties REIT** began trading just over a year ago, it was well received as the only publicly traded real estate investment trust in North America focused on owning auto dealership properties. The 8-per-cent distribution yield has also made it attractive to investors.

Unfortunately, the units, which went public at $10, reversed after reaching a high of $10.50 last August. The stock hit a low of $7.86 in mid-December, which can be blamed on volatile markets and a tough period for REITs in general.

Automotive Properties REIT's unit price has since recovered, now trading at about $10.25, and analysts are forecasting more gains ahead driven by anticipated acquisitions.

"We see a significant opportunity for growth in a highly fragmented national dealership real estate market in Canada," Desjardins Securities analyst David Chrystal said in a recent note after initiating coverage of the REIT with a "buy" and $11 target price. He cited industry statistics showing that the top 10 automotive dealership groups in Canada own and operate about 320 dealerships, or less than 10 per cent of the market.

'SIGNIFICANT OPPORTUNITY FOR GROWTH'

THE GLOBE AND MAIL | SOURCE: BLOOMBERG

Automotive Properties REIT acquires dealership real estate and leases the properties back to the vendors. It had 26 properties when it went public in July, 2015. Since then, it has bought three properties for about $41-million. Its portfolio today includes 29 properties across Canada, about 45 per cent of which are in the Greater Toronto Area and Barrie, 19 per cent in the Greater Vancouver Area, 14 per cent in each of Calgary and Regina, 6 per cent in Edmonton and 2 per cent in Montreal.

Mr. Chrystal said most dealers own the land underlying their operations, "and the market is largely untapped by institutional ownership and ripe for consolidation."

He believes the REIT has a "first-mover advantage and limited competition for assets."

All three analysts that cover the small cap stock have a buy recommendation and the average price target over the next year is $11.08. Canaccord Genuity analyst Mark Rothschild recently increased its target on the stock to $11.25.

Chief executive Milton Lamb said the company's strategy is to take advantage of consolidation in the industry. Some dealerships are selling their real estate to raise money to expand operations amid strong vehicle sales in most parts of the country, while others are looking to do deals for succession or estate-planning reasons.

"We think we'll be able to work with a number of groups, and that will provide us with the growth that we've already seen and will continue to see a lot more of," Mr. Lamb said in an interview.

Barometer Capital Management has owned the REIT since the IPO, and while the unit price has been volatile, vice-president and portfolio manager Salman Malik said the rich dividend and growth potential make it worth holding.

"There are a lot of levers they can pull," Mr. Malik said, referring to acquisition potential.

He also sees the distribution as sustainable.

The knock against the company is its low liquidity for investors. The REIT is 55-per-cent owned by the Dilawri Group of Companies, which is its largest shareholder. What's more, analysts point out that 94 per cent of the REIT's net operating income comes from properties leased to Dilawri. Analysts believe that percentage should drop as the REIT completes more third-party acquisitions, which in turn should also generate broader interest in the units.

Bruce Campbell, portfolio manager at StoneCastle Investment Management, said his firm hasn't bought the stock in part because of its small market capitalization and exposure to parts of the Western Canadian economy affected by the downturn in oil prices.

"We still have our eye on it," Mr. Campbell said. "If they were to increase in size, it would be easier for us to justify putting it into the portfolio. ... I think it will be a growing area."

Special to The Globe and Mail

Automotive Properties REIT (APR.UN)
Close: $10.20, up 9¢