

PALOS

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Weekly Commentary

Issue No. 38 | SEPTEMBER 7, 2020

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By Charles Marleau, CIM

InterRent REIT – Positioning for Growth and Income

InterRent Real Estate Investment Trust (TSX: IIP-U) owns and operates multi-unit residential properties primarily within the Greater Toronto Area (GTA), Greater Ottawa Area (GOA) and Montreal. In their September investor presentation, it was disclosed that 32% of the portfolio is in GTA, 27% in GOA, and 25% in Montreal. The remainder of the properties are in “secondary” markets which are essentially satellite cities within a two-hour drive from GTA. The company takes a conservative approach to its portfolio by focusing on regions with employment stability, population growth, and low vacancy rates. Geographically speaking, the InterRent portfolio is supported by growth in international immigration and the tendency of immigrants to locate in our major cities.

The company’s stated objectives are two-fold; to grow incomes generated from the rental business and increase the net asset value (NAV) through investment in a diversified portfolio of properties. The company strives to maintain its growing and sustainable cash distributions while following a conservative approach to managing the balance sheet. Dating back to September 1, 2009 IIP-U has steadily increased its monthly distributions and has never omitted a monthly payment. Over the last decade, the total return including reinvested distributions is 1,042% (source: Bloomberg). This makes IIP one of the best performers amongst Canadian REITs.

Culturally, the company believes in values that are firmly entrenched in the principles of integrity by nurturing a respectful work environment and its commitment to pursue the highest standards for customer service, tenant well-being, and philanthropic efforts. While InterRent’s value creation strategy starts with its people, the company has added an initiative to embrace technology. Looking for ways to enhance the resident experience, improvements are being made to digital engagement (e.g. payments, maintenance, leases), business intelligence, and cloud-based platforms. This culminates in a better experience for residents and employees.

Operationally, IIP has implemented cleaning protocols designed to battle the pandemic. The **CLV Clean & Secure+** initiative assures residents that high-touch areas undergo frequent disinfection. Protocols also include greater use of protective equipment for cleaners, enhanced guidelines for residents and visitors, and a digital platform that enables leasing to be completed in a contact-free manner. Despite the economic challenges presented to many who rent their homes, the percentage of collections have remained in the upper 90’s and less than 1% are on a deferral arrangement.

By Charles Marleau, CIM

On August 31, the Ontario government made the announcement that some rents will be frozen through 2021. In typical knee-jerk fashion, investors fled the sector with InterRent down by as much as 5.1%, Canadian Apartment Properties REIT down 5.5%, and Minto Apartment REIT down 5.7%. While some street analysts have downgraded these names based on a possible reduction in cash flow growth, it is important to note that the impact of government-imposed caps are likely to be a one-time event.

InterRent owns properties in geographic “magnets” that are primed for growth from Canada’s aggressive immigration policies. Not to be overlooked, is the added tailwind provided by a low interest environment that is likely to be sustained for the longer term. Low rates are beneficial for property acquisitions and new project financing. We continue to see value in IPP-U given the reliable and sustainable distribution, a conservative strategy that pursues reasonable growth, and a prudent approach to managing the balance sheet. IPP-U has a 1.3% weight in the Palos Income Fund.

Disclaimer: Palos Funds are shareholders of IPP-U.

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Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) ¹	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$7.65	-4.34%
Palos Equity Income Fund - RRSP	PAL101	\$5.49	-2.83%
Palos Merchant Fund L.P. (Dec 31, 2019) ²	PAL500	\$1.71	20.15%
Palos WP Growth Fund - RRSP	PAL210	\$9.02	17.84%
Palos-Mitchell Alpha Fund ³	PAL300	\$9.37	-9.71%
S&P TSX Composite (Total Return with dividends reinvested)			-2.80%
S&P 500 (Total Return with dividends reinvested)			7.47%
S&P TSX Venture (Total Return with dividends reinvested)			27.32%
Chart 2: Market Data ¹			Value
US Government 10-Year			0.72%
Canadian Government 10-Year			0.60%
Crude Oil Spot			US \$39.77
Gold Spot			US \$1926.20
US Gov't10-Year/Moody BAA Corp. Spread			264 bps
USD/CAD Exchange Rate Spot			US \$0.7656

¹ Period ending September 4, 2020. Data extracted from Bloomberg

² Fund is priced annually

³ Fund is priced weekly on Tuesdays

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