Top Stocks

How to profit from housing's 'shadow' recovery

The sector's rebound is still showing some troubling signs, with new potential buyers increasingly choosing to rent instead.

By StreetAuthority May 30, 2014 1:11PM

By Dorian Davis, StreetAuthority

StreetAuthority

You've heard it from Warren Buffett, your banker, and maybe even your bartender: Invest in real estate.

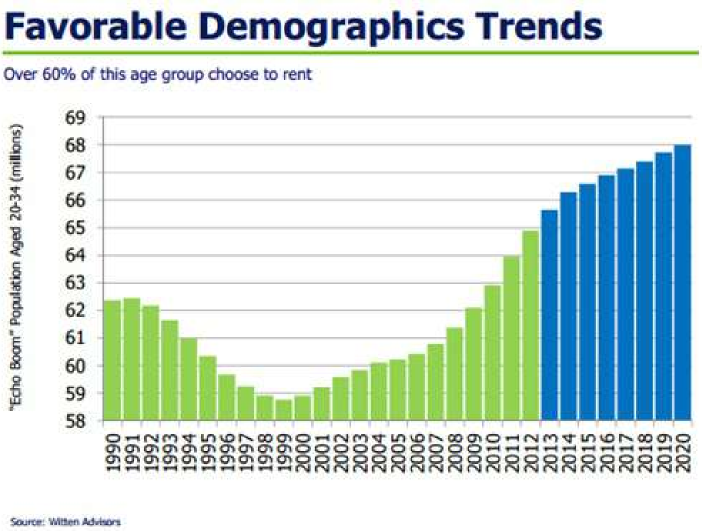
But before you take out a mortgage to buy your dream home (or spend your next paycheck on a fixer-upper in Detroit), right now may not be the best time.

Even though mortgage rates remain near all-time lows, there's a shadow over the U.S. housing recovery -- and even the Federal Reserve may be unable to do much about it.

In the past, it wasn't uncommon for new college graduates to be able to buy a home soon after graduating. Although the next generation of potential homebuyers is finding it easier to obtain a job as unemployment rates drop, they're expected to be saddled with crushing loads of student debt for years to come.

In addition, nearly a third of the owners of the most affordable homes in the U.S. are underwater, meaning they owe more than their properties are worth. That means fewer low-priced homes for first-time homebuyers to choose from.

So what happens when you have a booming economy full of young would-be homeowners who can't afford to buy? They rent.

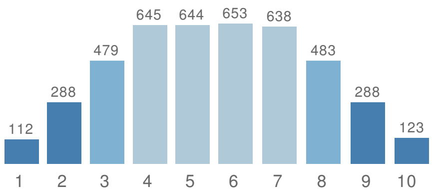


As an avid reader of Nathan Slaughter's High-Yield Investing advisory, I've become a fan of investing trends that can lead not just to growth but also consistent income.

If you're like me, you probably can't afford to go out and buy a 3,000-unit apartment property. Not only that, but you

STOCK SCOUTER

StockScouter rates stocks from 1 to 10, with 10 being the best, using a system of advanced mathematics to determine a stock's expected risk and return. Ratings are displayed on a bell curve, meaning there will be fewer ratings of 1 and 10 and far more of 4 through 7.



Top Picks

SYMBOL	NAME	RATING
AAPL	APPLE Inc	10
ATVI	ACTIVISION BLIZZARD Inc	10
CTSH	COGNIZANT TECHNOLOGY SOLUTIONS	10

probably don't want to deal with the taxes and headaches of becoming a landlord.

That's why I want to tell you about a company that's found itself in the middle of this huge growth trend . . . and it's done all the hard work for you.

Forbes magazine recently published its annual list of the fastest-growing U.S. cities. These cities are struggling to keep up with the demands of newcomers looking to rent places to live -- and the company I want to tell you about is well positioned in eight of these 10 cities.

The 10 fastest-growing US cities

Rank	City
1.	Austin, Texas
2.	Raleigh, N.C.
3.	Phoenix
4.	Dallas
5.	Salt Lake City
6.	Denver
7.	Ogden, Utah
8.	Charlotte, N.C.
9.	Orlando, Florida
10.	Houston

Source: Forbes

I'm talking about **Camden Property Trust** (CPT +0.40%), an apartment real estate investment trust (REIT) with more than 180 communities in the United States.

Yield-hungry investors are often attracted to REITs because they are required to distribute at least 90 percent of their taxable profit to shareholders in the form of dividends. CPT's 3.8 percent yield tops the apartment REIT sector average of 3.55 percent.

Even better, Camden has hiked its dividend payout almost 50 percent since 2010, to an annual payout of $2.64 a share. Based on the company's recent performance, there's a strong case for that rising dividend payout to continue.

Camden's stock is up more than 20 percent this year, and the REIT is coming off of an upbeat quarterly earnings report that paints a positive outlook for years to come.

The $6.2 billion company surprised Wall Street as first-quarter earnings per share (EPS) of $1.05 beat the consensus forecast by a penny. Camden credited better than expected occupancy rates for the outperformance. While 13.7 percen percent of Camden's residents moved out in the first quarter to become homeowners, that figure was a notable drop from 15.5% in the previous quarter.

The trends in Camden's revenue and earnings since the Great Recession are encouraging:

CPT Annual Data

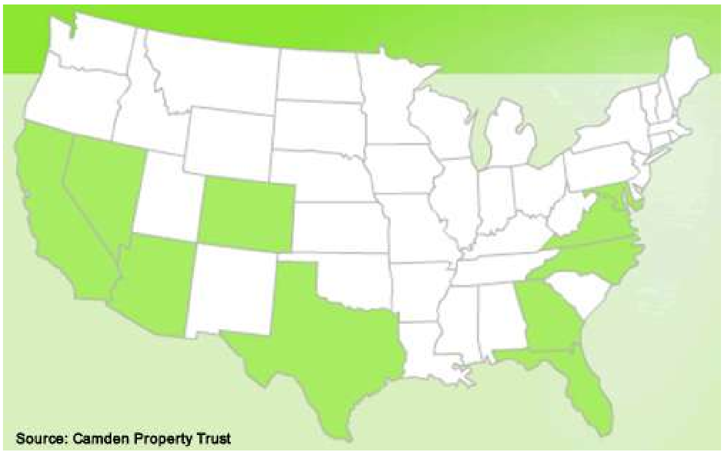
	2009	2010	2011	2012	2013
Earnings per share	-$0.8	$0.33	$0.67	$3.35	$3.82
Net income	-$43.8M	$30.2M	$56.4M	$286.2M	$336.4M
Revenue	$433.6M	$512.8M	$535.8M	$688.1M	$737.5M

Source: GuruFocus.com

EPS came in at $3.82 last year, a huge reversal from a loss of $0.80 a share in 2009. The company has managed to boost revenue 70 percent since then, to more than $737 million, and net income has more than tripled.

A look at Camden's locations shows why this company could have huge growth potential for years to come:

Camden locations


Source: Camden Property Trust

With more than 63,000 units in its portfolio, Camden had an impressive 95.7 percent occupancy rate at the end of the first quarter. The company currently operates 51 properties in Texas, with a property in Austin set to open in June.

Outside of new construction, the company is always looking for ways to expand. In 2013, Camden Properties purchased three communities and has nearly half a billion dollars in projects under development.

Analysts have been impressed with Camden's growth, with Imperial Capital recently raising its target share price more than 14 percent to $78, 11 percent upside from today's prices. The company also holds a respectable credit rating of BBB+ from Standard & Poor's.

However, if you're more comfortable diversifying your portfolio across multiple REITs, consider the **iShares Residential Rel Est Capped** (REZ -0.78%) exchange-traded fund. CPT accounts for roughly 3% of this ETF's portfolio. REZ pays a 3.5 percent yield and is up more than 17 percent this year.

Risks to consider: Although Camden has a made great recovery from the Great Recession, REITs like this are vulnerable to major economic downturns. In general, REITs are also vulnerable to rising interest rates, but for apartment REITs like CPT, that risk is offset by rising mortgage rates, which tend to keep would-be homebuyers renting longer.

Action to take: CPT offers a great way to gain exposure to the nation's fastest-growing apartment markets while collecting a respectable yield. While the double-digit upside expected by analysts is a reachable goal, CPT will really shine if it can keep boosting its dividend -- which looks likely, based on the company's growing revenue and long-term growth prospects.

< **Back to Top Stocks**

4 Comments

NEWEST OLDEST **BEST** WORST CONTROVERSIAL

TruthSeekerInVT May 30, 2014 3:00PM

The vampires of Wall St don't want you to buy real estate because that takes investment dollars away from them. Housing has made some significant comebacks in various parts of the country but you still need to do your research on the neighborhood, school system, costs etc to make sure it is a good investment. Secondly..with rents going thru the roof (no pun intended) and mortgage rates still relatively cheap it makes sense for some people to buy instead of rent. Look at your house more as a place to live rather than just an investment and remember that your house is worth what you can sell it for at that point in time you wish to sell. I built a new home last Fall and already the same model is now selling for about $50K more.

6 2 | Replies (1)

steveG1956 May 30, 2014 1:53PM

this ad paid for by Camden Property Trust......

the LA Times newspaper reported last weekend that property values in my town, in los angeles county, went up 25% over last year's April data.

a year or two more like that and the upside down homes should be right side up again.

4 2 | Replies (0)

amy pichii Jun 1, 2014 5:01PM

Why does MSN run a story on how to profit? According to MSN profits are evil, and for greedy capitalists only.

2 2 | Replies (0)

ADD A COMMENT

DATA PROVIDERS

Fundamental company data and historical chart data provided by Morningstar Inc. Real-time index quotes and delayed quotes supplied by Morningstar Inc. Quotes delayed by up to 15 minutes, except where indicated otherwise. Fund summary, fund performance and dividend data provided by Morningstar Inc. Analyst recommendations provided by Zacks Investment Research. StockScouter data provided by Verus Analytics. IPO data provided by Hoover's Inc. Index membership data provided by Morningstar Inc.