



3 Top Real Estate Stocks to Buy Now

Description

The party is over, the band has stopped, and the people are straggling for the exits.

The threat of rising interest rates slammed the real estate industry in 2013. The **S&P/TSX Capped REIT Index** is off 10% over the past year.

The 20-year era of exceptional returns driven by declining interest rates is over. And the days where real estate companies could simply take advantage of the spread between falling borrowing costs and the returns on acquisitions are done.

But this doesn't mean you should abandon this sector entirely. Firms with financial flexibility and the ability to grow cash flow without acquisitions could still deliver hearty returns.

Investors should focus on firms that can deliver organic growth. And the recent sell-off provide the perfect opportunity to pick up some of the sector's highest quality names at a discount. Here are three firms to consider adding to your portfolio.

Boardwalk REIT

It's no exaggeration to say that the Alberta oil sands is a construction project on par with building the Great Wall of China or the Egyptian pyramids. Of course, such a venture requires an army of welders, carpenters, engineers, and other professions to accomplish. And this has triggered one of the largest human migrations in Canadian history.

As Western Canada's largest apartment landlord, **Boardwalk REIT** ([TSX:BEI.UN](#)) is best positioned to profit from this trend. A growing population bodes well for lower occupancy rates and higher rents. That should fuel plenty of cash flow growth and distribution hikes in the upcoming years.

Please, don't skip over this stock because of its meagre 3.5% yield. The company's management team has an excellent track record of rewarding unit-holders. Over the past decade the trust has increased in payout at a 22% compounded annual clip.

Killam Properties

When Canadian investors are hunting for growth, they tend to picture the Western parries or a technology center like Waterloo, Ontario. But there is good reason to start looking further east.

Large economic developments, including the Federal government's \$25 billion shipbuilding project and \$2 billion in offshore oil and gas exploration, could provide a spark to the Nova Scotia economy in the upcoming years. With a diversified portfolio of \$1.5 billion in assets, **Killam Properties** (TSX:KMP) is the largest apartment landlord in Atlantic Canada and well positioned to profit from this expansion. Already we're starting higher rental prices in the region as money and people move in for the development.

In addition to these macroeconomic tailwinds, management has done a good job acquiring low-end properties and improving them to attract higher-quality tenants. Expect that to fuel Killam's share price and dividends in the upcoming years.

RioCan

As hot money leaves the sector, investors will begin to differentiate between companies with conservative leverage, attractive growth strategies, and the ability to execute on those plans. **RioCan REIT** ([TSX:REI.UN](#)), with its flexible balance sheet and experienced management team, fits this description perfectly.

What's attractive about RioCan is its lease roll-over profile. Roughly 40% of the company's leases are due for renewal over the next five years. Many of those contracts have been signed at rates well below today's market prices. As those leases are renegotiated, it will provide a big bump to RioCan's free cash flow from operations.

Most importantly RioCan's sheer size, low-leverage, and diversity of funding options allow it to consider almost every potentially suitable investment opportunity in the market. That could come in handy if interest rates start to climb.

Foolish bottom line

The game plan here is simple: Stick to firms that have strong internal cash flow growth and don't require access to capital markets. The party might be over for the real estate industry, but that doesn't mean you have to shun this sector entirely.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BEI.UN (Boardwalk Real Estate Investment Trust)
2. TSX:KMP.UN (Killam Apartment REIT)
3. TSX:REI.UN (RioCan Real Estate Investment Trust)

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Author

rbailieul

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