



## Is The Growth in Canada's REIT Sector Over?

### Description

Over the last decade, REITs have been one of the best-performing sectors on the Toronto Stock Exchange.

Their rise can be attributed to a few different factors. While overall economic conditions weren't exactly stellar, Canada largely missed the huge recession that crippled our southern neighbors. Our real estate market has seen a historic rise, inflating the assets of REITs just as much as the rest of our houses. Interest rates remained low for most of the decade, which caused income-hungry investors to switch from other assets into REITs. Overall, it's been a pretty good time to own REITs.

However, is the party coming to an end? I'm not sure it is, but there are definite signs that things may start to tighten up in the future, at least for some companies.

About a month ago, **Boardwalk REIT** ([TSX: BEI.UN](#)) came out with some interesting news. Management said that it would love to buy additional apartment buildings, and expand from its current 225 buildings and more than 36,000 units — but it has just one problem.

It can't find anything to buy. Sure, there are buildings for sale, but the good ones are either quickly gobbled up or are priced so high that the cash flow numbers don't make sense. How is the company supposed to expand if it can't buy anything?

It has a couple of options. It can build apartment blocks from scratch. The company has completed a building in Calgary and has plans in place to build several more across the western provinces. Management likes this plan, since it can generally get brand new units for not a whole lot more than having to buy a building that's 10 or 20 years old. Of course, this plan takes years to roll out, since the construction process is usually quite slow.

The company could also make a big splash and acquire a similar apartment REIT in the United States. Cap rates are generally higher in the U.S., and real estate is a pretty similar business no matter which side of the border you're on.

**RioCan** ([TSX: REI.UN](#)), Canada's largest retail REIT, has already expanded down south, and has

grown to generate about 16% of its revenue from its U.S. properties. These properties are located in the northeastern states and Texas. Even though the company has 16 retail developments either planned or under construction in Canada, it's obvious that it will continue to look south for growth opportunities in the future.

Perhaps the easiest way for a REIT to expand is to adjust its business model to look at other opportunities. **Artis REIT** ([TSX: AX.UN](#)) owns a diversified mix of retail, office, and industrial buildings across North America, getting 30% of its revenue from the U.S. The company has expanded greatly over the past few years, more than doubling its revenue and the value of its real estate portfolio. The REIT gives investors a 6.9% yield, and trades at a 20% discount to its book value.

Because Artis and RioCan were willing to expand their operations into the U.S., each got access to growth opportunities that just weren't available in Canada. Real estate is a hot sector here, and many private companies are competing with REITs for these smaller deals. Until the market starts to soften in Canada, expect REITs that insist on staying in our borders to underperform.

## CATEGORY

1. Investing

## TICKERS GLOBAL

1. TSX:AX.UN (Artis Real Estate Investment Trust)
2. TSX:BEI.UN (Boardwalk Real Estate Investment Trust)
3. TSX:REI.UN (RioCan Real Estate Investment Trust)

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## Date

2025/08/20

## Date Created

2014/06/20

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