Consider These REITS Instead of a Mortgage

Description

It appears that the real estate market in Canada is finally starting to cool down — albeit slowly.

After what has been an incredible run, the average price of a home in Canada is now over $450,000. In Toronto, which saw some of the steepest increases in home values, that average price is now over $725,000.

To put this increase into perspective, a first-time home buyer looking to put the standard 20% down would need to fork over $145,000 for that average home. Anything less than 20% as a down payment requires an additional premium to be paid to CMHC that ranges from 0.6% to 3.6%, which (announced this week) is increasing for the second time in less than two years.

Further to this, the Office of the Superintendent of Financial Institutions pushed forth a requirement starting this year that banks need to hold more capital against their mortgages.

So what are prospective would-be homeowners to do while waiting for that inevitable correction that is long overdue? Consider investing in a REIT and become a landlord without the mortgage, tenant chasing, or repair calls.

Here are a few REITs to consider for your portfolio.

Killam Apartment REIT

Killam Apartment REIT (TSX:KMP.UN) has recently caught my attention, and for good reason too. Killam focuses on multi-family residential homes primarily in Atlantic Canada, but it has recently begun to increase exposure to other areas of the country, specifically Alberta and Ontario.

One way that Killam keeps growth strong and vacancies low is what the company refers to as its commitment to tenant satisfaction; in other words, a tenant that is happy won't leave and likely won't mind paying a little more.

One of the impressive features of Killam is how the company pursues aggressive growth prospects wherever they may be. Just this week, Killam announced two acquisitions totaling $26.2 million that will see the company add 153 units in London, Ontario, and a further 66 units in Calgary, Alberta, to the company's growing portfolio.

This latest acquisition follows a $13.4 million purchase just before Christmas of five buildings in London. The company now has a total of 417 units in London. Management maintains that further acquisitions are set to follow in 2017.

In terms of a distribution, Killam pays a monthly distribution of $0.05 per share, which amounts to an impressive yield of 5% at the current price.

Northview Apartment REIT

Northview Apartment REIT (TSX:NVU.UN) is the third-largest REIT in the country and one of the most diversified options for any portfolio. Northview's portfolio consists of over 24,000 units that are primarily multi-family units spread across the country.

One aspect of Northview that have impressed me recently is how it has managed to expand outwards from the core energy-industry-dependent holdings over the past few years to become one of the most diversified REITs in the market.

Northview pays a monthly distribution of $0.1358, which provides a very impressive 8.10% yield at the current price. Despite this high yield, Northview's payout level remains at a very manageable rate just over 70% that allows for continued growth.

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