A Good Place to Invest Your Money in Real Estate Today

Description

Some people buy a home, so the value of it can appreciate over time. The home can also be partially rented out to generate income to pay down the mortgage faster.

Buying a home is one of the biggest (if not *the* biggest) purchase of a lifetime for many people. If you're not ready for that yet, there are other ways to invest in real estate — that is, via real estate stocks. Many real estate stocks come in the form of real estate investment trusts (REITs).

Whether you own a home or not, you can invest in real estate stocks to diversify your portfolio. The added benefit is that these businesses are managed by professional teams. Particularly, **First Capital Realty Inc.** (TSX:FCR) may be of interest to you with its recent pullback.

First Capital has interests in 160 properties across 25.2 million square feet of gross leasable area. It generates 48% of its rental revenue from Ontario, 23% from Alberta, 18% from Quebec, and 11% from British Columbia.

Defensive assets in excellent locations

First Capital owns, develops, and manages grocery-anchored, retail-focused properties with a focus on large urban Canadian markets, including the Greater Toronto Area (33% of its rental revenue), Montreal (15%), Calgary (12%), and Vancouver (11%).

In these urban markets, the growth in the population or household income is estimated to exceed the growth in retail space, which should lead to increased tenant sales and, in turn, translate to higher rents for the company.

grocery store
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First Capital rents to a diversified mix of tenants. It generates about 34% of rental revenue from industries such as restaurants & cafes, and medical, professional & personal services, which are e-commerce proof.

Moreover, First Capital generates 27% of its rental revenue from grocery stores or pharmacies, which are consumer staples and typically very stable. On top of that, the company generates 17.9% of its rental revenue from other necessity-based retailers, such as **Canadian Tire**, **Wal-Mart**, and **Dollarama**, as well as 8.7% from banks and credit unions, such as **Royal Bank** and **Toronto-Dominion Bank**.

Its largest-three tenants are grocery stores, including **Loblaw** and Shoppers Drug Mart (10.3% of rental revenue), Sobeys (6.6%), and **Metro** (3.5%).

Outperform in the long run

With First Capital's quality portfolio, it's not surprising that the stock tends to outperform the Canadian market and the REIT industry over the long term. However, it has underperformed in the last year along with other retail REITs. The stock is about 15% below its 52-week high and roughly 3% above its 52-week low.

Is the underperformance a good entry point?

First Capital has quality assets with defensive nature in urban markets. With the pullback, the shares have become better valued than before. And they are good for a 4.3% yield with a sustainable payout ratio of 77% in the first quarter.

The most conservative analyst gives a 12-month price target of $22, implying upside potential of 11.4%, or a total return of about 15.7%, from the recent quotation of $19.74 per share. First Capital should be a decent investment for conservative investors looking for quality at a fair price, and it would be a stronger buy on any further dips.

CATEGORY

1. Dividend Stocks
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1. TSX:FCR.UN (First Capital Real Estate Investment Trust)

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