Why Growth Is Hiding in REITs

Description

With a number of securities reaching 52-week highs, investors are currently hard pressed to find new growth opportunities now that the market is several years into another bull market. Although things are looking up for many, the challenge currently faced by investors is the lack of opportunities available.

Given the current market conditions and the recent increase in interest rates, some of the best opportunities may now be found where they are least expected: in the shares of real estate investment trusts (REITs). Given higher interest rates, many REITs have not moved in the past several months in spite of paying generous dividends while retaining a portion of profits in the form of shareholders' equity.

Shares of **Morguard North American Residential REIT** (TSX:MRG.UN) offer a monthly dividend of more than 4% while retaining close to 70% of cash flows from operations (CFO). As the company is in the residential real estate business, the appetite for housing will only subside should a shift in the population occur. At the present time, the population of Canada is steadily increasing, as the baby boomers continue to live longer, and immigration continues to bring more people into the country.

Near a 52-week high, shares of **Dream Industrial Real Estate Invest Trst** (TSX:DIR.UN) have close to $500 million of equity at their disposal, which can be used to purchase new industrial properties should the opportunity present itself. Given a high dividend yield of close to 7.5%, investors are well paid to wait for the company to deploy capital in a productive manner. The catalyst for investors with this name is in the form of dividends, which are paid on a monthly basis.

Given that interest rates are rising, many investors may be hesitant to take a position in shares of this industrial REIT, as the mortgages will eventually roll over and financing costs will increase. In reality, investors need not worry, as the REIT has staggered borrowings; the nature of industrial real estate is very long term. With known cash inflows and expenses, investors can easily collect their dividends without worrying about higher interest rates down the road.

For those seeking a more diversified play, **Melcor Developments Ltd.** (TSX:MRD) is a real estate company which derives a large amount of revenues and profits from the building new homes for consumers. In spite of development being the main driver, shareholders are still receiving a dividend yield of more than 3.25%, which is supported by three divisions of the company, including office and industrial rental divisions.

Although many investors feel the need to find drastic revenue increases to qualify a company as a growth stock, the reality is that when a company’s bottom line nets out to be an additional 5% per year on an ongoing basis, there is substantial value to be had from this growing bottom line. Given the fixed expenses and increasing revenues of these real estate companies, investors have a lot to be happy about when searching for the next bargain!

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:DIR.UN (Dream Industrial REIT)
2. TSX:MRD (Melcor Developments Ltd.)
3. TSX:MRG.UN (Morguard North American Residential Real Estate Investment Trust)

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ryangoldsman