TFSA Investors: 2 Undervalued REITs to Load Up on Today

Description

We're just two months away before it's time to make another contribution to our TFSAs. It seems that the markets are flying to new highs every day, so it'd be a prudent decision to take a step back and consider a more conservative approach heading into 2018.

While it's tempting to become greedy and neglect the defensive portion of your portfolios, there are many defensive gems on the market today that can offer bountiful yields, which will pad volatility should a mild correction show its ugly face next year.

Despite rising interest rates, REITs are still terrific long-term investments. They offer a combination of stability and high payouts that are an essential core to many portfolios of retirees and conservative income investors.

It's not a mystery that we're in a rising interest rate environment. Most interest rate-sensitive securities like REITs already have this long-term headwind baked in to their share prices at current levels, so conservative investors shouldn't feel uneasy about accumulating shares of undervalued REITs, especially if the underlying businesses are still fundamentally sound.

Here are two undervalued REITs with above-average yields north of 5% that you may want to consider owning today:

Pure Industrial Real Estate Trust (TSX:AAR.UN)

PIRET has enjoyed a great deal of capital appreciation over the past year, as shares surged ~24%. More recently, shares have pulled back and are now down ~5% from all-time highs. With a bountiful 4.66% yield and many medium- to long-term catalysts, I believe long-term income investors should strongly consider initiating a position in this underrated REIT today.

The e-commerce market is expected to grow by leaps and bounds over the next decade, and PIRET is set to profit from such a trend. The CBRE estimates that every $1 billion in e-commerce sales translates to 1.25 million square feet of logistics demand.

PIRET currently has ~30% of its properties dedicated to e-commerce, and going forward, the company hopes to grow this number even higher as e-commerce continues to account for more of overall sales.

With PIRET, you get growth and a stable, high distribution yield. With shares trading at a mere 6.81 price-to-earnings multiple, investors should strongly think about adding a position today.

SmartCentres Real Estate Investment Trst (TSX:SRU.UN)

While the rise of e-commerce is a plus for PIRET, it's a negative for SmartCentres REIT, formerly known as Smart REIT. The trust owns over 30 million square feet worth of retail centres, most of which are anchored by **Wal-Mart Stores Inc.**, which has held its own against **Amazon.com, Inc.** and continues to be a strong driver of mall traffic.

The stock has been beaten up over the past year, and I think there's a great deal of value to be had at the $29 levels, where the yield is just south of 6%.

The general public seems to think that the death of the shopping mall will cause SmartCentres REIT to crumble; however, the firm is doing a lot better than the recent weakness in its share price would suggest. The REIT hasn't suffered from any vacancy spikes, and I don't believe vacancies will surge, at least not suddenly, especially when you consider most of SmartCentres REIT's tenants are some of the most resilient brick-and-mortar retailers out there.

The "death of the shopping mall" fears are overblown, in my opinion, so value investors should treat the weakness in shares as nothing more than a long-term buying opportunity. SmartCentres REIT is a high-quality shopping centre REIT with promising developments, which will gradually diversify the trust away from shopping centres and retail in time.

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1. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)

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joefrenette