Top 5 REITs to Hold for 2018

Description

With interest rates on the rise during the second half of this year, many investors have tapered their holdings in real estate investment trusts (REITs) in favour of lower-risk, lower-yielding fixed-rate investments. The opportunity that has arisen for investors is that many income trusts are currently trading at net asset values (NAVs) that are below their intrinsic values, while offering a higher-than-average yield to new investors. Although many fear that rising rates will act as a roadblock to further dividend increases, the truth is that with borrowing costs locked in for many years to come, many REITs are great buys at current prices.

The first name on the list is **Dream Industrial Real Estate Invest Trst** (TSX:DIR.UN), which, at a price of less than $9 per share, offers investors a dividend yield of more than 7.75%, while returning a price increase of almost 20% in the past 52 weeks. Essentially, shareholders have been receiving monthly cash distributions, while watching their capital grow considerably for what is a very low risk investment with a beta of less than 0.5.

As a reminder to investors, many REITs have a substantial amount of assets and equity on the balance sheet acting as a backstop.

In the office space, shares of **Slate Office REIT** (TSX:SOT.UN) have been moving sideways for the past year. Slate offers monthly distributions, which translates to a yield of more than 9.25% on an annualized basis. Given that shares continue to trade at a slight discount to tangible book value, investors will want to add this name to their portfolios for the year to come. Although the dividend yield seems extremely high, it should be noted that the dividend-payout ratio (as a function of cash from operations) was only 67% for last fiscal year and is currently close to 100% for this current fiscal year to date.

In the residential REIT space, investors need to consider shares of **Morguard North American Residential REIT** (TSX:MRG.UN). At a price of less than $15 per share, Morguard pays a monthly dividend of no less than 4.25%. To make the investment even more attractive, the company has tangible book value of $21.53 as of the most recent financial statements. Given that the dividend-payout ratio remains relatively low at 40.6% of CFO through the first three quarters of this fiscal year, shareholders should not be surprised to see either a share buyback or a dividend increase in the coming year.

The next name on the list is none other than **Pure Multi-Family REIT LP** (TSXV:RUF.U). At a price approaching US$6, Pure has had a bad run over the past three months. The company invests in multi-family properties in the United States and may be starting to find a bottom at current prices. Given that the company may be setting shareholders up for a fantastic 2018, investors will need to pay special attention to the USD/CAD relationship, which could cut both ways in this case.

The last name on the list is for investors betting on a recovery in western Canada. Shares of **Melcor Developments Ltd.** (TSX:MRD), at a current price of $15 per share, have finally found a bottom, as the real estate company is depending on its passive investments to pay a dividend yield of close to 3.5% until the profitability from the building segment returns to previous levels. At that point, shares of the home builder may return closer to tangible book value, which is in excess of $29 per share.

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)
4. TSX:RPR.UN (Ravelin Properties REIT)

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