



REIT Market Heating Up: Which Stocks Are Hottest?

Description

Real estate investment trusts were not immune to the broad sell-off. This sector was largely falling prior to January. There are a few reasons why the REIT market got beat up: First, interest rate hikes hurt sectors with high financial leverage. REITs may borrow at variable rates that move with prime rates, which hurts cash flow with debt payment. Second, as interest rates go up, income investors may exit REIT positions in favour a less-risky bond market.

But there have been two big REIT moves this year, and interest hikes are already priced into share prices. Things are heating up.

Pure Industrial Real Estate Trust (TSX:AAR.UN) was my [number one pick](#) back in November. I picked this stock two months before it got bought out by New York-based Blackstone Property Partners. I didn't forecast the acquisition, but it was a nice perk for shareholders, as the stock soared 21% in one day to \$8 per share. Don't buy Pure Industrial now. Look elsewhere in this sector.

Not wasting any time, just one month later, the REIT "heat" is now supplanted by even bigger news that the REIT under stewardship of the Weston family — **Choice Properties Real Est Invstmnt Trst** ([TSX:CHP.UN](#)) — will acquire "CREIT" **Canadian REIT** (TSX:REF.UN).

The deal will cost Choice Properties \$3.93 billion. CREIT shareholders got a 14% bounce in share price. Meanwhile, Choice Properties's share price dropped. I have to assume this is a good deal for Choice Properties, but it will take time for the dust to settle and for this market share to turn into new revenue. Another interpretation is that Choice Properties — predominantly with retail properties — is weak. Adding a more diversified portfolio of office and industrial properties should make it stronger.

These REITs are listed in the table below. A useful way to evaluate REITs is to divide the share price by the total cash flows from operations, or the price-to-funds-from-operations ratio (P/FFO). Unlike most companies, you want to focus on cash flows with REITs. A low P/FFO is a sign of cheap valuation.

Can you spot any bargains?

Symbol	Marketcap (million)	Annualcash flow (million)	P/FFO	Dividend (%)
CRT.UN	\$2,875	\$317	9.1	5
CAR.UN	\$5,000	\$361	13.9	3.5
DRG.UN	\$2,153	\$60	35.9	6.7
REF.UN	\$3,659	\$191	19.2	4.2
CHP.UN	\$1,133	\$504	2.2	5.6

Source: Morningstar.

I've covered **Canadian Apartment Properties REIT** ([TSX:CAR.UN](#)) [previously](#), and I like this apartment REIT quite a lot; a current levels, it might be slightly overvalued. **Dream Global REIT** (TSX:DRG.UN) is clearly overvalued based on the P/FFO.

Meanwhile, **CT Real Estate Investment Trust** ([TSX:CRT.UN](#)) just bounced up off a multi-year low. The P/FFO of 9.1 is attractive. This is the **Canadian Tire Corporation Limited** REIT. The 5% yield is strong with a dividend-payout ratio that hovers safely between 50% and 60%. Despite a bad fourth quarter, this REIT is a solid income source. There are no issues with occupancy for this company. I'm sensing an upside swing.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:CAR.UN (Canadian Apartment Properties Real Estate Investment Trust)
2. TSX:CHP.UN (Choice Properties Real Estate Investment Trust)
3. TSX:CRT.UN (CT Real Estate Investment Trust)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Tags

1. Editor's Choice

Date

2025/08/20

Date Created

2018/02/19

Author

bmacintosh

default watermark

default watermark