



Which Canadian REITs Offer the Best Value in Today's Market?

Description

REITs are must-haves for conservative income investors, regardless of which direction interest rates are headed. That said, many investors have thrown in the towel on many high-quality Canadian REITs just because they're afraid of the implications of a rising interest rate environment.

Yes, Canadian REITs are at a disadvantage versus U.S. REITs when it comes to rising rates, but if you take a look at today's prices, I think you'll see that most of the pessimism is already baked in. Perhaps the fears are overblown, in which case you can scoop up a bargain at a time when most believe the asset class will be unattractive for many years to come.

If you're a retiree, it's just not worth your effort to actively avoid Canadian REITs by opting for either foreign REITs or other high-yielding securities, most notably, beaten-up dividend stocks whose yields have surged above their historical averages (for which there are many after the recent dip). REITs are the perfect balance of high income, stability, and low volatility. In addition, with Canadian REITs, you won't need to worry about foreign distribution withholding taxes taking a considerable slice out of your monthly income.

Let's have a look at three of the cheaper quality REITs to determine which is your best bet with given the current rising rate environment.

RioCan Real Estate Investment Trust ([TSX:REI.UN](https://www.scribd.com/document/481111111/TSX:REI.UN))

RioCan is a diversified retail REIT that's a favourite with many mutual fund managers. The security is down nearly 20% from its all-time high and the distribution is at a very bountiful 6.04%. When it comes to stability, income and value, it's really hard to beat RioCan at current levels with its mere 11.2 price-to-earnings multiple and one price-to-book multiple.

Over the next decade, RioCan has ambitious plans of building up to 10,000 residential units in promising urban areas, providing a gradual diversification away from good old retail, a REIT sub-industry whose sentiment is overly pessimistic.

SmartCentres Real Estate Investment Trust ([TSX:SRU.UN](#))

SmartCentres is another retail-focused REIT with a low valuation, a chunky distribution (currently yielding 5.72%) and is off ~20% from its all-time high. Like RioCan, Shares of SmartCentres have been overly punished due to fears over the death of traditional brick-and-mortar retail, even though there haven't been any alarming spikes in vacancy rates. Moving forward, such spikes are very unlikely to happen, especially with SmartCentres and its extremely [high-quality tenant base](#), anchored by one of the strongest retailers out there today.

Canadian Apartment Properties REIT ([TSX:CAR.UN](#))

Canadian Apartment Properties is just off ~3.5% from all-time highs and has fared quite well versus your typical Canadian REIT. Despite surging over 70% in the last four years, the trust still isn't ridiculously expensive, as shares trade at a 1.1 price-to-book multiple, which is in line with historical averages.

The distribution isn't as attractive as some of its more beaten-up peers; however, when it comes to a rock solid foundation, Canadian Apartment Properties is a terrific buy, even if you know that rates are going to soar. About half the firm's net operating income comes from the Province of Ontario, and with occupancy rates just south of 99%, you're clearly [paying up for quality](#) and extremely low volatility.

Bottom line

There are plenty of cheap REITs in Canada, so if your long-term retirement plan includes them, don't make drastic changes just because rates are rising. Everybody has known of this for many years, and REITs have adjusted accordingly.

Of the three REITs I mentioned in this piece, my favourite has to be RioCan because I believe it's trading at the biggest discount relative to its intrinsic value and I think the concerns are overblown beyond proportion. You're getting a great value and an above-average distribution with this solid REIT that investors should feel comfortable owning for decades.

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2. TSX:REI.UN (RioCan Real Estate Investment Trust)
3. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)

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