The Top REITs With Room to Run!

Description

After witnessing what is hopefully a bottoming out of interest rates, investors can now consider where they want to put their money, as the economy remains hot leading to the expectation of yet another increase in interest rates before year end. The most basic question that one must ask has not changed: What am I giving vs. what am I getting when I deploy my capital?

In the case of many real estate investment trusts (REITs), investors are giving up a price that is somewhere close to tangible book value and receiving a dividend yield that typically lies in the 4-6% range. The caveat, however, is that many REITs have declined in value just as interest rates have nudged up. As the expectation is for even higher rates, the market is not pricing in a favourable future for this sector. Translation: this is a buying opportunity for investors.

The good news is that the increase in rates may not be as dramatic or as consistent as many believe. As the booming economy begins to cool, there may be rationale for either a pause in rate increases or a dramatic U-turn. In either case, investors would experience a lot of value creation, as the market has completely overdone the sell-off in this sector.

For those who are interested in finding a high-quality name with the opportunity for capital appreciation, shares of **Dream Office Real Estate Investment Trst** (TSX:D.UN) top the list of names to consider. At a current price just above $24 per share, the company offers investors a dividend yield in excess of 4% with the potential to increase the amount paid within the next year. The challenge previously faced by the company was the high level of vacancy in the Western Canada portfolio (specifically, Alberta) as the price of oil declined. For new leases, the rates also declined as much more supply became available.

In spite of excellent momentum in the GTA market, investors did not hesitate to punish the company, as the dividend needed to be cut. With oil now back in the black, the next move is expected to be to the upside for this wonderful name.

The second name to consider is one where a dividend cut would not be a terrible thing. Shares of **Slate Office REIT** (TSX:SOT.UN) currently offer investors a dividend yield of almost 10%, as the company previously raised too much capital to acquire new properties. Although management has made it clear that these shares (which trade at a discount to tangible book value) would be re-purchased, the truth of the matter is that the company may have difficulty coming up with the cash needed to do this. The best opportunity to close the gap between the share price and tangible book value may just be to cut the dividend and increase the rate at which shares are bought back in the open market.

With the expectation of above-average, long-term gains, this name has excellent potential for patient investors!

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