Boomer Investors: Should You Reduce Exposure to REITs Like This 1?

Description

The housing bubble is dead — or is it? An overheating economy, interest rate hikes, and new challenges for first-time buyers are all weighing on real estate. Brexit is also adding uncertainty and negligible boons (an investment in "safer" Canadian property, for instance, may be too small to have much of an effect). So, where do mature investors stand when it comes to investment in property?

A dormant, or "stealth," housing bubble would be bad news for the following corporation and its REIT. Think about what a contraction in the market would do to the balance sheets of these and other real estate stocks. If possible, older investors enamoured with real estate should look for REITs that have low debt and reduce exposure; some analysts recommend that REITs comprise only around 5% of an entire portfolio.

Want a cheap REIT with a big dividend?

If you're still looking to get into real estate, then **Morguard REIT** (TSX:MRT.UN) would be a good REIT to consider, especially if you are a market fundamentals fan. They don't come any better than this if you're looking for both value and passive income in a diversified real estate stock.

Discounted by over 50% next to its future cash flow value, this quality REIT has a reasonable P/E of 19.9 times earnings and a good P/B ratio of 0.5 times book. Look at that low expected annual growth in earnings, though: at just 3.2%, it makes you wonder whether that P/E ratio is actually justified.

The return on equity for this REIT was just 2% last year, but before you balk, have a look at the dividend yield Morguard REIT offers at its current price (less than $13 at present): a cool 7.7%. Is it stable though? A level of debt that hovers around 80% of this REIT's net worth may cast some doubt. Still, it's an REIT to be reckoned with if you like your dividend stocks undervalued.

What about the corporation's stock?

While we are taking a peek at its REIT, why not see how **Morguard Corporation** (TSX:MRC) itself is looking? For real estate investors who are looking at selling off actual property but want to stay invested in the sector in a more nuts-and-bolts way than diversified REITs, direct investment in Morguard's own brick-and-mortar real estate portfolio may be a way to go.

Trading down around the $170 mark, Morguard Corporation looks like it is undervalued today. It's got a low P/E ratio of 5.9 times earnings, which might sound good to value investors, but does not bode well for those looking for growth. A P/B of 0.6 times book is good to see, especially if you like to value a stock by its assets.

Coming back to growth, or lack thereof, a low 3.9% expected annual growth in earnings over the next one to three years confirms that assumption about Morguard Corporation's P/E ratio and reflects the outlook for the real estate sector in general. A high level of debt (over 100% of net worth) plus a very small dividend yield of less than 1% make the Morguard REIT a more appealing option here, though both would no doubt fare badly if a stealth housing bubble burst.

The bottom line

If all (or the most part) of your money is in real estate — either brick-and-mortar, REITs, or real estate stocks, or both — then you may want to start thinking about diversifying. Check your REITs for debt and make sure that whatever you stay invested in is watertight. In summary, fat dividends from real estate stocks are tempting, but you may want to think about limiting how many you load up on ahead of a potential burst bubble.

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