Which of These 3 Diversified REITs Will Help Canadian Investors Get Defensive?

Description

Diversified stocks are key to defensiveness when you step outside the comfort zones of banking and utilities. That's why stocks in areas such as mining and real estate are so much more appealing to risk-averse investors when they come pre-diversified, either through the real-world products or services in which they deal or through their geographical spread.

The following REITs do a bit of both, with held assets spread across commercial, office, retail, and industrial real estate, with a Canadian focus. While each of these REITs has its own strengths, let's see whether any one of them is a better by today based on the available data.

Artis Real Estate Investment Trust (TSX:AX.UN)

With investments in office, retail, and industrial real estate assets, Artis REIT is nicely diversified, offering a low-risk entry into the sector. It's trading at a deep discount today or 40% of to its future cash flow value. A P/E of 8.2 times earnings feels a little low, however, and may indicate a lack of growth ahead. A P/B of 0.8 times book backs up this undervaluation.

A 5.5% expected annual growth in earnings over the next one to three years seems to contradict that low P/E, though it is in itself not particularly high. A return on equity of 9% last year suggests moderately good use of shareholders' funds, while a dividend yield of 8.88% looks very tempting. Be aware that a debt level of 95.7% net worth, while common in REITs at the moment, is significantly high.

Morguard Real Estate Investment Trust (TSX:MRT.UN)

If you are looking for a closed-end REIT that owns a diversified range of retail, office, and industrial properties across the nation, this discounted stock is the one for you. Trading at less than 50% of its future cash flow value, this REIT has a decent P/E ratio of 19.5 times earnings at the moment, and a soothingly low P/B ratio of 0.5 times book.

A 3.2% expected annual future growth in earnings is positive, though quality indicators such as a return on equity of 2% last year, a lack of a dividend yield, and highish debt of 82.2% net worth are pause for thought, however.

Agellan Commercial Real Estate Investment Trust (TSX:ACR.UN)

Unincorporated, open-ended REITs used to be all the rage; this one, offered at a discount of 48% off its future cash flow value, is definitely a strong contender if you're still in the market. A P/E of 5.4 times earnings and P/B of 1.1 times book — just over book value — backs up that attractive valuation.

A 6.2% expected annual growth in earnings over the next one to three years beats the other two stocks here, as does a return on equity of 20% last year. The dividend yield of 5.75% on offer is both high and realistic.

This REIT has to be one of the better choices out there at the moment for one key reason: its level of debt is considerably lower than most of its competitors. At 59.7% of net worth, Agellan Commercial REIT's debt level is almost half of that held by most REITs on the TSX at present.

The bottom line

REITs are a good way to invest in real estate without the risk of owning brick-and-mortar assets; it's the property and development version of owning gold stocks (miners or streamers: take your pick) rather than actual gold. Look for the more stable REITs with the lowest debt — though be aware that the norm at the moment seems to be close to 100% of net worth — and, if possible, go for ready-diversified picks like the ones above in order to further spread the risk

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