



I Tracked 3 Defensive REITs Over a Month: Here's What I Found

Description

It's part of our DNA, as investors, to hold real estate up as a defensive sector. But can REITs really be defensive? Especially post-2008, real estate feels alarmingly flimsy as an investment sector. I started looking at REITs like the ones below to see, from a hypothetical viewpoint, whether these dividend goldmines could be analyzed for defensiveness using key performance indicators.

While it was interesting to see the results [a month ago](#), what's even more intriguing is how much those analyses have changed since then. Let's revisit the data and see whether we can draw any conclusions from the changes in each set.

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

Go back in time by one month, and you'll see Artis was discounted by 40% compared to its future cash flow value. This has since gone up to 43%. Meanwhile, a P/E of 8.2 times earnings has dropped to 7.8, and a P/B of 0.8 times book is now 0.7. A meagre 5.5% expected annual growth in earnings has crept up to 8.4%. That deepening discount has, of course, led to a dividend yield of 8.88% becoming a hefty 9.38%.

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

This time four weeks ago, Morguard REIT was trading at a discount of more than 50% its future cash flow value; today that's dropped to 37%. Conversely, a P/E of 19.5 times earnings has dropped a percentage point to 18.5 times earnings. Likewise, its P/B of 0.5 times book is now 0.4. Meanwhile, a 3.2% annual earnings growth forecast has risen to 18.9%.

High debt of 82.2% net worth is a concern for this REIT, though a sizable dividend yield of 8.26% is one of the main draws for this mainstay of Canadian real estate investment trusts.

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

Last month, this popular REIT was discounted by 48% compared to its future cash flow value. Today it's discounted by an extra percentage point. Other signs of deepening undervaluation include a P/E of

4.9 times earnings, down from 5.4, and shares that trade at exactly book value, down from a P/B of 1.1 times book. As you'd expect, a falling share price has caused the dividend yield to widen from 5.75% to 6.4%.

However, last month's outlook of 6.2% expected annual growth in earnings has dropped to an 8.8% contraction, though last year's return on equity of 20%, of course, remains unchanged and indicates fair quality.

All told, it would appear that investors are cooling a little on REITs. This could be due to any number of factors weighing on the market, but it does seem to speak to the beginning of the end of mainstream bullishness in the industry. Deeper discounts mean higher yields, though, so anyone who has been sitting on the fence now has a number of lucrative value opportunities to choose from.

The bottom line

Finding an REIT that doesn't hold debt of close to 100% of net worth is a tough ask for any portfolio manager these days. Given the risky nature of [real estate](#), you really want your investments to be as close to debt-free as possible.

That's not always possible, though, so finding the next best thing requires trawling through the data, but don't bother because I've already done it for you: the healthiest buy of the bunch is Agellan Commercial REIT with "just" 59.7% debt. Morguard is more dynamic, though, has more growth, and pays a better dividend.

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