REIT Round-Up: Are These Real Estate Stocks Too Risky for 2019?

Description

With increasing household debt, climbing house prices, and last year's interest rate rises, it's no wonder that real estate is such a hot topic in Canada at the moment. Indeed, with a surfeit of economic pressures facing the domestic market for 2019, some pundits are starting to wonder how the real estate industry might cope with a potential recession.

Let's take a look at three of the biggest REITs currently trading on the TSX index and see which might be best placed to weather a hardening real estate market or whether they're too much of a liability.

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

This popular choice is competitively valued and returns a decent dividend yield. However, a one-year past earnings growth of -14.1% signals that the last 12 months haven't been great for Morguard REIT. Worse than that, though, is a five-year earnings average of -31.5%, which shows that the last half decade hasn't been great, either.

What's good about this stock is a pair of attractive multiples (see a P/E of 12.7 times earnings matched with a good P/B ratio of 0.5 times book), a chunky yield of 7.87%, and an expected 14% annual growth in earnings. What's not so good is a high debt level of 83.9% of net worth. Can better REIT stats be found on the TSX index? Let's find out.

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

Off to a good start already, Artis REIT's one-year past earnings growth of 40% beats the average Canadian REITs' year-on-year growth of 24.6%, and smashes its own 0.7% five-year average. However, with an even higher debt level than the previous stock's, up at 94.9% of net worth, we're back to square one.

A considerable amount of inside buying over the last three months shows that insider confidence is high, and is always a good indicator of how well an asset is expected to perform among those with a little extra insight. Perhaps that decent valuation signified by a low P/E of 8.4 times earnings and matching P/B of 0.7 times book looked good. Then again, it could have been that sizeable dividend yield of 5.31% or cheery outlook: Artis REIT is looking at a 12.4% expected increase in earnings.

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

This sturdy REIT also had a good year: a one-year past earnings growth of 21% just missed the Canadian REIT average for the same period of 24.6%, though overall its five-year average past earnings growth was higher at 38.1%. With a lower debt level than its competitors at 55.8% of net worth, Agellan Commercial REIT looks like a frontrunner.

Valuation looks good for this REIT, too, with a low P/E of 6.4 times earnings; however, a P/B ratio of 1.1 times book is very slightly over the per-asset asking price. That said, its share price is discounted by 39% compared to its future cash flow value, so value really is a flash word for Agellan Commercial REIT.

The bottom line

In summary, there's a certain amount of risk in holding a stock with high debt attached, especially in such an uncertain economic environment. Investors looking for the best deal for a domestic REIT trading on the TSX index should weigh up a couple of things when it comes to frontrunner, Agellan Commercial REIT, however. On the one hand, it carries less debt than its competitors listed above, and pays a decent dividend yield of 5.69%. On the other, it's looking at an expected -3% in earnings over the next one to three years, thereby undermining its appeal.

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