2 Top REITS to Gain Exposure to a Strong Canadian Rental Market

Description

The Canadian rental market is benefiting from the fact that housing prices have been so high, and unaffordable to many, as well as the continued increase in the numbers of people moving to the big urban cities and surrounding areas.

Big urban cities such as Toronto, Vancouver, ad Montreal, to name a few, are bustling with growth and activity.

Here I will discuss two REITs that are extremely well positioned today and for the future, providing investors with strong and reliable dividend yields.

Canadian Apartment Properties REIT (TSX:CAR.UN)

Canadian Apartment Properties stock is benefiting from the strong apartment rentals market, with strong and stable occupancies, rising rental rates, rising revenues, net operating income, and cash flows.

All told, this REIT is on a roll. With soaring profitability, a healthy payout ratio, and a strong, reliable dividend yield of 2.87%, investors best take notice of this REIT.

With interests in almost 51,000 residential units predominantly in Canada, in and around urban centres, this REIT is well positioned to continue to benefit from growth in urban centres and the upward pressure on rental rates and occupancy levels.

The bulk of the REIT’s net operating income comes from properties in Ontario (51% of net operating income), where occupancy has been stable in the last year, at 99.4%, and net average monthly rents has been increasing, up 5% in the last year.

Existing rental rates are well below market rates at this time. As landlords are limited in their ability to increase rents, it will take time for actual rents to catch up to the market rates, so we can expect Canadian Apartment Properties REIT to continue to see healthy growth in net operating income for years to come.

The relatively recent expansion into the Netherlands, at 5.3% of net operating income is also doing well, making this diversification out of Canada a positive move so far. Rapidly rising occupancy levels in the last year, from 94.8% to 97.9% in 2018, and a 13% increase in net average monthly rents, speak to the success of this move.

RioCan Real Estate Investment Trust (TSX:REI.UN)

As one of Canada's largest REITs, $8 billion RioCan is also benefiting from growth in Canada's major urban cities, and with a focus on retail-focused properties in high density areas.

With a 5.6% dividend yield, scale and a diverse set of tenants and growth opportunities, RioCan looks well positioned.

The biggest risk with this REIT, which probably explains the stock's higher dividend yield, is the changing landscape for retailers. The e-commerce threat is placing traditional bricks and mortar retailers and the profitability of their physical stores at risk.

Final thoughts

Both of the aforementioned REITs continue to provide investors with strong dividend yields, with Canadian Apartment Properties being the one that stands to benefit more from very solid fundamentals, and RioCan offering the higher yield.

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