2 REITS That Will Benefit From a Low Interest Rate Environment (and 1 to Avoid)

Description

Markets rallied across the board last week on speculation that the Federal Reserve will likely be cutting its official policy interest rate later this year and possibly as early as July.

The move is seen as a response to an economy that some think is starting to show cracks in its armour, including a weak jobs report for May that saw just 75,000 new jobs created — about 100,000 fewer than what was expected.

Because interest rates tend to move in the opposite direction of asset prices, stocks rallied on the news, sending the S&P 500 over 100 points higher, while Canada's benchmark index, the TSX Composite, gained more than 189 points for the week.

Meanwhile, one of the sectors most exposed to changes in the levels of interest rates is real estate.

Most property owners, including real estate property management companies and investment trusts, finance the majority of their purchases by borrowing capital from banks and financial institutions, putting up only a fraction of the capital required to make the investment.

Because of this, the performance of many real estate vehicles is often closely tied to that of the cost required to borrow money from the capital markets.

Brookfield Property Partners (TSX:BPY.UN) owns a world-class portfolio of real estate assets spanning office, retail, and multifamily units across a broad scope of diversified geographies.

Low interest rates can be a good thing because they make the cost of borrowing money cheaper, but at the same time central banks usually only lower their interest rates when the economy isn't performing so well.

That's why economist usually refer to the lowering of interest rates as being an "accommodative policy."

But since BPY's portfolio mostly consists of high-quality assets housing some of the world's most valuable tenants and because, for the most part, the global economy continues to chug along just fine, the a drop in rates should be viewed as more of an opportunity than a threat for a company like Brookfield.

A company like **Slate Office REIT** (TSX:SOT.UN), however, might be viewed as a bit of a different story.

Unlike BPY, only 55% of Slate's properties consist of "Class A" assets and just 61% of the company's revenues are derived by what would be considered by credit-rating agencies as "investment grade" tenants.

That distinction is an important one because if it turns out that the Fed is, in fact, lowering its official policy rate because it fears the economy is actually performing worse than some think it is, Slate's tenants might be some of the most vulnerable to being affected.

Changing gears slightly, **Dream Industrial Real Estate Invest Trust** (TSX:DIR.UN) is focused on serving the needs of its industrial tenants across both Canada and the United States.

There's currently a shortage of real estate dedicated for industrial purposes in several key Canadian markets, which has helped deliver strong returns for DIR, including 25% returns YTD, and it's in the process created significant barriers to entry for would-be competitors.

But that's not all DIR has working in its favour right now.

Thanks to changing consumer preferences and the increasing demand for direct-to-consumer, or e-commerce shopping experiences, Dream is seeing a massive expansion in the demand for its distribution facilities — a trend that in all likelihood won't be reversing course any time soon.

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2. TSX:DIR.UN (Dream Industrial REIT)
3. TSX:RPR.UN (Ravelin Properties REIT)

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