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What You Need to Know About Investing in TSX REITs

Description

The unfortunate real estate sector has been through the grinder in the past 10 years. It was one of the hardest hit by the recession, but the banks got all the attention. Now that we are past the trouble, Canadian investors should not ignore the high returns of underpriced real estate investment trusts (REITs).

Here are a few REITs with strong potential to give you great dividend returns and capital gains: **Summit Industrial Income REIT** (TSX:SMU.UN) and **Colliers International Group** (TSX:CIGI)(NYSE:CIGI) and **Morgaurd** (TSX:MRC).

Summit Industrial Income REIT

Summit Industrial Income REIT came in at number 30 on the TSX 30 2019 list of highest growth stocks on the exchange. Summit leases light industrial property, including data centres across Canada. Big data and cloud computing are disrupting every industry. Thus, Summit stock has been priming itself for even more significant earnings announcements coming down the line.

The stock price has surged 160% in the past three years. At the share price of $13.14 as of writing, the dividend yield is 4.11%. The REIT should see extreme growth in the next year, as Summit Industrial has increased its portfolio size by 56.3% and has upped rental prices by 11.9% in 2018.

Colliers International Group

Colliers International Group is one of the world’s leading real estate services and management firms. The company is one of the more profitable REITS, last reporting earnings per share (EPS) of $2.36. The downside is the expensive price of the stock. Each share trades for $74.70 as of writing at a price-to-earnings (P/E) ratio of 31.61.

This P/E ratio means that shareholders are paying $31.61 for every $1 of earnings attributable to that share.

The dividend yield at its current price is a low 0.13%. Buying low-yielding stocks is not the best idea; these stocks gamble with the possibility of capital gains without much compensation for the risk. Shareholders in Colliers are better off putting their money in a high-yield Government Insured Certificate (GIC) than stock with a dividend yield under 2%.

Morguard

Morguard offers shareholders a low annual dividend yield of 0.29% at the current price of $205 as of writing. The difference between Colliers and Morguard is its high earnings before interest, taxes, depreciation, and amortization (EBITDA). Last reported at $528 million, Morguard's EBITDA indicates that this REIT has some of the highest returns in the industry.

More remarkable is its $20.37 diluted annual EPS. This stock is a long way to go before it is too expensive to buy. Even better: commercial real estate is benefitting from rising rents and low vacancy, foreshadowing even greater returns for Morguard in the future.

No investment comes without risk. The trade environment makes it uncertain if the market can continue strongly. A small holding in Morguard probably won't hurt, but large bets on commercial real estate without a regular dividend payment is a stretch. Because Morguard's dividend is low, Canadian retirees may prefer to put their money in a GIC.

Foolish takeaway

REITs can offer Tax-Free Savings Account and Registered Retirement Savings Plan investors excellent returns. Data centres and cell phone towers high-growth investments with excellent return potential. However, commercial real estate REITs like Morguard are great at low portfolio weights, but high flyers like Morguard can also drop at any time — a situation all Canadians want to avoid.

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1. Dividend Stocks
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TICKERS GLOBAL

1. TSX:CIGI (Colliers International Group)
2. TSX:MRC (Morguard Corporation)
3. TSX:SMU.UN (Summit Industrial Income REIT)

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