Homes vs. REITs: Why These 2 REITs Are Better Investments

Description

The Financial Post reported that due to low interest rates and the lack of supply, Toronto and Vancouver have become some of the most overvalued housing markets, ranking second and sixth, respectively, in the world.

The introduction of a foreign buyer's tax and other regulatory changes did little to shave off the high valuations of homes in these areas. Consequently, if you live in or around these cities, it may be wiser to invest in better-valued real estate investment trusts (REITs) for greater income and total returns potential.

SmartCentres REIT

One interesting stock to consider today is **SmartCentres REIT** (TSX:SRU.UN). The Canadian retail REIT has 157 properties across 34.4 million square feet with an average occupancy of 98%.

The REIT's industry-leading occupancy is due to having a grocery or pharmacy at all its sites and earning rent from high-quality top tenants, like **Walmart**, **Canadian Tire**, **TJX**, **Loblaw**, **Lowe's**, and Safeway. Its top six tenants contribute about 42% of the REIT's annual rental income.

So far, SmartCentres has identified intensification opportunities in 94 properties, which translate to 256 development projects across different asset types, including apartment, office, senior housing, self-storage facility, hotel, condominium, or townhouses.

With an in-house development team focused on intensification, the REIT can benefit immensely from the project pipeline. 71 of these projects are active and 34 are already underway!

SmartCentres REIT is a good value today with near-term total returns potential of about 13%, thanks in part to its juicy yield of 5.5%. Over the last few years, it has increased its payout by about 3% per year, and nothing suggests that won't continue.

Brookfield Property

Brookfield Property (TSX:BPY.UN)(NASDAQ:BPY) is another REIT that I like, but its property portfolio is global. BPY also develops its properties. Specifically, it has about 11 million square feet of core office and multifamily development projects underway.

Brookfield Property owns a core office and retail real estate portfolio, including 143 premier office properties in gateway cities, such as New York, London, Toronto, Los Angeles, Washington D.C., Sydney, and Berlin, and 123 quality retail properties in the United States. Their recent occupancies were high at 92.4% and 95%, respectively.

BPY allocates about 15% of its balance sheet for opportunistic investments, which range from office, retail, multifamily, industrial, hospitality, triple net lease, self-storage, student housing, and manufactured housing assets.

This portfolio targets to acquire quality undervalued assets. Through operational improvement from expert management, the portfolio is estimated to achieve outsized returns net operating income growth or improved asset sales.

Brookfield Property is undervalued today with near-term total returns potential of about 24%, thanks partly to its high yield of 6.8%. Investors should be excited that the real estate company is set to increase the payout by 5-8% per year.

Foolish takeaway

Before buying a home, which is likely the most expensive purchase you'll ever make in your life, consider whether it's a good investment or if it makes better sense to rent. You will find that certain REITs, such as SmartCentres and Brookfield Property, provide better income and long-term returns for your money.

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1. TSX:BPY.UN (Brookfield Property Partners)
2. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)

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Date
2025/08/22
Date Created
2019/10/02
Author
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