Is This the Only REIT That Investors Should Own?

Description

Real estate investment trusts (REITs) are gaining considerable popularity because of their high yields and low volatility, making them ideal investments for income hungry investors to prepare for a bear market.

REITs are generally less volatile than many other stocks and pay sustainable distributions yielding 4% or more, making them an attractive investment during economic downturns.

While individual REITs continue to attract the attention of investors, the **BMO Equal Weight REITs Index ETF** (TSX:ZRE) is an attractive lower risk option to gain diversified exposure to real estate. The ETF pays a regular sustainable distribution yielding just over 4%**,** has gained 23% since the start of 2019 and appears poised to continue delivering value for investors.

How does the ETF work?

BMO Equal Weight REITs Index seeks to replicate the performance of an equal weight Canadian REIT index, with its top three holdings being the **InterRent REIT**, **H&R REIT** and **Allied Properties REIT,** which account for 6.5%, 5.8% and 5.6%, respectively of the REITs net asset value.

It also has substantial holdings in **RioCan Real Estate Investment Trust**, **Dream Industrial Real Estate Investment Trust**, **Artis Real Estate Investment Trust** (TSX:AX.UN) and **Dream Office Real Estate Investment Trust**.

That gives BMO Equal Weight REITs Index a healthy degree of diversification across all property classes**,** which helps to reduce the impact that a recession and subsequent market correction would have on its market value.

It also provides investors with exposure to a wide basket of Canadian REITs that would be time-consuming and almost impossible to research thoroughly enough to justify making individual investments.

For these reasons, the ETF is a solid option for investors seeking to weather-proof their portfolio against the next economic slump while being able to profit when the economy returns to growth.

The only issue with investing in an ETF is that management fees are charged and these while typically quite moderate can eat into returns over the long term. The BMO Equal Weight REITs Index charges a management expense ratio of 0.61%, effectively reducing the return earned by investors.

Nonetheless, the ETF has generated a 130% return over the last 10 years, an average of 9% annually over that period. That solid return is superior to income-producing assets such as bonds or GICs, underscoring just how well REITs have performed.

An alternative to investing in BMO Equal Weight REITs Index**,** while still being able to take advantage of the benefits offered by a diversified investment**,** is to buy Artis Real Estate Investment Trust.

It owns a portfolio of commercial real estate across office, light industrial and retail and has been one of the best- performing Canadian REITs for the year to date, gaining 34% over that period.

What makes Artis particularly attractive, aside from its sustainable distribution yielding 4%, is that it is trading at around a 20% discount to its net asset value (NAV) and management are actively working on unlocking value for unitholders.

The strategies being used include a $270 million unit buyback, capital recycling with a $1 billion target where the REIT is selling mature assets, and using the proceeds to make opportunistic acquisitions and develop existing properties to improve their rents.

Artis is also focused on reducing its exposure to retail properties, a sector that's been heavily weighed down by the transition to online retailing and e-commerce, which is wreaking havoc among bricks and mortar retailers as well as shopping malls.

By 2020, the REIT expects to generate only 15% of its net operating income (NOI) from retail compared to 20% for the second quarter 2019 while bolstering its exposure to industrial properties.

This will boost earnings because the rapid uptake of online retailing has sparked significant demand for industrial properties to be used as logistics centres in a market when underinvestment in those types of properties has created a supply shortage.

Foolish takeaway

REITs remain one of the best ways to build a recurring passive income stream and reduce portfolio volatility. The BMO Equal Weight REITs Index provides the opportunity to gain broad exposure to Canadian REITs while minimizing the risks associated with investing in a single REIT, although there is the disadvantage of paying a management fee.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:AX.UN (Artis Real Estate Investment Trust)
2. TSX:ZRE (BMO Equal Weight REITs Index ETF)

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