A Sea Change in Real Estate Makes This REIT a Buy

Description

While the costs to households and businesses exposed to rising sea levels could be vast, investors could ride the wave of a real estate industry quickly evolving to cash in on an inland exodus. It may seem counter intuitive to invest in real estate when millions of coastal homes are potentially at risk of flooding. However, if you stop and think about it, there could be potential here for REIT investors.

The reason behind this is fairly simple: the rezoning industry could explode if sea level changes reshape the housing market, with an influx of coastal dwellers seeking inland and upland properties. Indeed, “climigration” — the climate-induced relocation of vulnerable communities — could become a real estate buzzword describing a huge growth market over the coming decades.

Real estate investment will undergo a tidal change

While new policy and process reviews will have to be carried out by overseers in the housing market with regards to addressing climate change risks, once the groundwork for change is in place, investors are likely to see a swell of funds out of certain areas and into new ones. Even marketing inland and upland properties to spooked homeowners and property developers is likely to be a growth industry in itself.

However, since the U.S. would be greatly impacted by even a one- or two-metre sea level rise, with entire areas of Florida and New York at risk of either chronic flooding or permanent inundation, as would whole low-lying swathes of Europe, certain types of Canadian real estate could rocket in value, as homeowners and businesses congregate around inland urban centres.

Construction and water management could also become booming industries if rising sea levels begin to impact the built environment, with waste water, water treatment, and all facets of the infrastructure industry likely to experience huge growth. From road building to basic amenities, the expansion of settlements away from coastal areas will see huge amounts of money injected into construction and utilities.

REITs to consider for “climate-induced upside” include **Northview Apartment Real Estate Investment Trust**

(TSX:NVU.UN). Northview is a particularly good choice for defensive investing and pays a 5.68% dividend yield. A solid addition to an income portfolio, Northview is diversified within the residential market with property types encompassing multi-family, apartments, town houses.

From a Canadian perspective, while Vancouver and urban centres along the Saint Lawrence River are directly at risk of rising sea levels, areas such as Toronto would be largely unaffected. Since Northview also covers commercial property types such as offices, industrial real estate, and retail sites and is active in over 60 markets, its stock makes for a potentially lucrative spread-risk play for the coming decades.

The bottom line

Northview Apartment REIT and REITs like it could see huge inflows of investor funds once policy and review changes swing around to reflect the real challenges faced by coastal communities. While the potential losses incurred by property owners and developers along affected coastlines are likely to be astronomical, the relocation market is likely to be just as large and could be a rewarding area of investment.

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