Millennials: Here’s 1 Big Secret About Real Estate and REITs

Description

The explosion of the Canadian real estate market, particularly in major metropolitan areas like the Greater Toronto Area and Metro Vancouver, has soaked up headlines over the past decade. Real estate has played a massive role in the broader economy over this time span, and the market has seemingly overcome what now looks like a hiccup in 2017 and 2018. Sales are once again posting growth in these major metropolitan areas.

As well as real estate has performed, it has stiff competition from real estate investment trusts. Their success over real estate investment is one of the best kept secrets of the 2010s. This performance is one of the reasons I’d suggested that young investors should dip into REITs instead of forcing their way into the headache of home ownership.

REITs are the big winner this decade

In order to get a clearer picture of the performance of REITs over the past decade, let’s take a look at **iShares S&P/TSX Capped REIT ETF**. This ETF launched in October 2002. It seeks exposure to Canadian REITs and offers a monthly distribution. As it stands today, the yield of that distribution is 3.7%. More impressive is its capital growth.

iShares S&P/TSX Capped REIT ETF has achieved average annual returns of 11.8% over the past 10 years. It has climbed 24% in 2019 so far, marking its best single-year performance since 2009. As well as this ETF has performed, I prefer to own REITs as individual equities, as they offer some of the strongest yields on the TSX while also boasting stability.

Back in the spring, I’d covered two of the top REITs available on the TSX. Now is a good time to revisit those two equities, as the sector has been on fire this year. **RioCan Real Estate Investment Trust** is the second-largest holding in the aforementioned ETF. Shares of RioCan have climbed 19.4% in 2019 as of close on November 27. Still, it offers solid value in comparison to other pricey dividend stocks on the TSX. Shares had a price-to-earnings (P/E) ratio of 13.9 and a price-to-book (P/B) value of one at the time of this writing.

Of course, investors are here for the income. RioCan currently offers a monthly dividend payout of $0.12 per share. This represents a strong 5.3% yield.

I like **H&R REIT** (TSX:HR.UN) even more as we head into the final month of 2019. Shares of H&R REIT have dropped 3.6% over the past month as of close on November 27. The stock is still up 10% so far this year.

Shares have dipped after the release of its third-quarter 2019 results. Same-asset property operating income slid 4.3% year over year, and net income fell 34.3% from Q3 2018. However, in the year-to-date period funds from operations (FFO) are still up marginally from 2018. Profit margins have declined from the prior year, but revenue is still forecast to post steady growth into the next decade.

The stock last had an RSI of 36, putting it just outside technically oversold territory. Shares have a favourable P/E ratio of 14 and a P/B value of 0.8. Most appealing is its monthly dividend of $0.115 per share, which represents a tasty 6.4% yield. I like H&R REIT as a potential buy-the-dip option in late 2019.

Final thoughts

Real estate is a tempting lure, especially for young investors who are anxious to own their first home. However, as an investment REITs have offered substantial rates of return over the past decade while also providing mouth-watering dividends. If growing your wealth is the objective, foregoing home ownership may be the best move for many of you right now.

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