1 Canadian Real Estate Stock to Buy in 2020 and Never Sell

Description

If you are bullish on Canadian real estate today and would like to partake in the lucrative investment returns that the sector's listed names have been rewarding investors with for decades, but you are conscious of the energy-draining exercise of trying to individually select the best sector names to pick on the TSX and the frequent hustle of having to update yourself on each ticker every other quarter, then you may want to consider this investment below.

It's a professionally managed exchange-traded fund (ETF), it's diversified, it offers access to a wide selection of the best industry names, and it has historically performed very well. To top it all, it pays nice monthly distributions and an occasional capital gain distribution.

Vanguard FTSE Canadian Capped REIT Index ETF (TSX:VRE) is a passively managed ETF that offers investors diversified exposure to some of Canada's best-performing real estate management firms with its investments in large-cap, mid-cap, and small-cap entities.

The fund passively tracks the FTSE Canada All Cap Real Estate Capped 25% Index, targeting full replication of the index.

Due to it being passive managed, you don't pay hefty management premiums. Resultantly, the fund has one of the lowest management expense ratios among the best ETF names. Vanguard's management fee is as low as 0.35%, and the management expense ratio stands at just 0.39%. Management expenses don't always come this low on similar high-performing investments.

Since inception in November 2012, VRE has turned a $10,000 equity investment into a nice $17,758.08, and the unit price has grown an average of 9.4% annually, supported by the strong performance of its constituent securities, which have averaged an 11.2% earnings-growth rate over the past five years.

Monthly distributions paid during the past 12 months yielded 5.15% through to December 31, 2019, but there can be some unusual payouts on top, like a hefty $0.75-per-unit distribution at year-end, which was mailed on January 8 this year. If the usual monthly distribution of $0.095 per unit, which was paid in 2019, is carried over into 2020, it could yield a respectable 3.1% before any capital gains distributions for the year.

Despite what the fund’s name implies, it isn’t an all-REIT portfolio. The portfolio has investments in other places too. Under 80% of the portfolio holdings are actually REITs, and 11.6% is invested in real estate services firms, while another 9.2% is deployed in real estate holding and development firms.

The reasonably wide selection of constituents outside REITs and the inclusion of smaller but growing firms offers a much wider exposure to the Canadian real estate sector than some other competing ETF options on the TSX, which can be more concentrated.

Services firms in the portfolio include very promising outperformer **First Service**, which brings further diversification through its exposure to the United States economy through its growing operations south of the border, and **Colliers International Group**, which, as its name suggests, brings even more international exposure.

Most noteworthy, today’s highly valued industrial and office REIT segment comprises the largest share (30%) of the portfolio, while the resilient all-weather residential REIT segment commands an 18.7% share to offer strong growth potential and resilience to the fund.

A nearly 10% exposure to diversified trusts could benefit stability, and I could also acknowledge the inclusion of old-age-care investor **Chartwell Retirement Residences** at nearly 4.8% of the portfolio to give investors exposure to the increasingly ageing population’s needs and cash flows.

VRE’s total investment returns could outperform an otherwise lukewarm TSX for a long time.

The ETF is eligible for your RRSP, RRIF, TFSA, RESP, DPSP, and RDSP holding.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:VRE (Vanguard FTSE Canadian Capped REIT Index ETF)

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