TSX Investors: Why REITs Are Discounted Right Now

Description

The Canadian economy has been hit hard in the early spring. Analysts and economists have projected that Canada may be more vulnerable than other developed nations, largely due to its dependence on oil and gas.

Real estate has also grown into one of Canada's key sectors, and the COVID-19 outbreak poses a threat in the near term. Because of this, faith in REITs and other real estate-linked vehicles has fallen.

That loss of faith may not be justified going forward, however. Today I want to explore why REITs took a hit — and how these equities could rebound in the months ahead.

Why REITs were hit hard in March

Many governments around the world have elected to pursue lockdowns in order to contain the COVID-19 outbreak. Canada followed suit in the middle of March. Ontario, the most populous province in the country, declared a state of emergency on March 17.

This eventually meant the closure of in-person, non-essential businesses, public gatherings, and the enforcement of social distancing in a bid to flatten the curve.

The economic disruption has predictably had an impact on real estate. Earlier this month, I'd discussed why some economists were concerned about the prospect of large-scale defaults.

Over one million Canadians lost their jobs in March. Fortunately, the federal government has taken steps to safeguard the financial integrity of many Canadians by introducing the Canadian Emergency Relief Benefit (CERB).

Still, REITs were thrashed in March. **Canadian Apartment Properties REIT** has dropped 15% month over month as of close on April 14. **Choice Properties REIT** stock has fallen 5.4% over the past month. **Crombie REIT**, which also holds interest in large residential properties, has seen its shares decline 14.9% over the past three months.

Positive signs for real estate in April

The stunning spike in jobless numbers and a chaotic economic environment had many wondering whether Canadians would be able to meet their rent obligations on April 1. Data from early this month suggests that the situation is still quite stable, which should boost confidence in this sector.

According to a survey by SVN Rock Advisors Inc., Brokerage, 73% of apartment tenants paid their rent for April 1 — a number that's expected to rise as more data trickles through in the month of April. In addition, fewer than 1% of apartment tenants reached out to landlords about issues in paying their rent.

The survey also revealed that institutional-sized owners of approximately 12,000 units reported a 95% collection rate. Although we're still in the early stages of this crisis, this is a good sign for renters and landlords to kick off the month of April.

Which stocks should you buy today?

Canadian Apartment Properties is one of the largest REITs operating in the country. Its stock last had a favourable price-to-earnings ratio of 6.0 and a price-to-book value of 0.9. However, it offers a more modest monthly dividend payout of $0.115 per share, which represents a 3% yield.

Choice Properties is the largest REIT in Canada. The stock last had a P/B value of 1.3, albeit has struggled with declining earnings in recent years. Conversely, it offers a monthly dividend payout of $0.061667 per share, which represents a strong 5.5% yield.

Finally, you have Crombie REIT. In my view, this is the most well-rounded of the three right now. It is also focused in the commercial space.

Shares offer nice value with a P/E ratio of 12 and a P/B value of 1.4. It last paid out a monthly distribution of $0.07417 per share, representing a hefty 6.7% yield, and earnings growth over the last year was solid.

CATEGORY

1. Dividend Stocks
2. Investing

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise

5. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date
2025/07/02
Date Created
2020/04/19
Author
aocallaghan