The Surprising REIT That Is a Great Bet Right Now

Description

The broad market sell-off has not had the typical inverse impact on Canadian real estate investment trusts (REITs) that many investors had expected. This is particularly true for residential-focused REITs. REITs and other bond-like proxies typically do well in a falling interest rate environment. Canada has followed the U.S. in lowering benchmark central bank-dictated rates to zero.

This, of course, is an abnormal time. The market is pricing some concern into residential REITs such as **Killam Apartment REIT** and **Canadian Apartment REIT**. This concern centres on the idea that mass unemployment could ultimately lead to the inability of folks to pay their rent. This could lead to potential long-lasting cash flow issues. In addition, vacancy rate would be negatively impacted. Further, net operating income and cap rates in the sector would decrease significantly.

Office/retail REITs

My view on residential REITs is that these trusts are far safer than retail or office REITs. This is true, even given the economic shockwaves that are hitting markets like a tsunami. There are a few key reasons for this. Investors in the real estate space should be less worried about residential real estate. Retail or office real estate is far riskier. There is an important reason for this. The key difference between residential and office/retail REITs is the propensity of tenants to pay.

Put simply, those who are paying rent for office space or storefront/retail space for their businesses have a far greater likelihood of delinquency. Businesses go bankrupt all the time. To a large degree, this reality is somewhat baked into office/retail REITs. These contracts typically have higher provisions for losses and vacancy exceptions.

Why residential REITs are the safest bet

Renters who miss payments to their landlords would be concerned about getting kicked out of their homes and onto the street. This would be the worst possible scenario for them. Most folks will take out loans, run up credit card debt, and miss payments on student loans or car loans before missing rent payments for this reason.

The last thing most people will default on is their housing. Vacancy rates in most highly populated areas in Canada are very low. Therefore, it is unlikely that apartment REITs like Killam or CAR will see a significant, prolonged uptick in vacancy rates, particularly in those markets. Furthermore, the cost of refinancing mortgages has just dropped substantially. This makes it an excellent time for residential REITs to work on their books and make adjustments where possible.

Bottom line

There are a multitude of sectors that can expect to feel a significant amount of pain. However, apartment REITs are not likely to get hit as hard as the market is pricing in right now, in my view. The federal and/or provincial governments are likely to step in to prevent renters from being thrown of their homes before any such scenario plays out.

Stay Foolish, my friends.

CATEGORY

1. Investing

POST TAG

1. canada
2. real estate
3. recession
4. REITs
5. unemployment

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Investing

Tags

1. canada
2. real estate
3. recession
4. REITs
5. unemployment

Date

2025/07/01
Date Created
2020/04/25
Author
chrismacdonald