Real Estate: 3 Top TSX Stocks to Own in a Pandemic Crisis

Description

Real estate and REIT stocks have been challenged in this pandemic. REITs are normally known as very defensive stocks because of their strong, contracted cash flows. Unfortunately, this characteristic is challenged in an environment where tenants cannot operate or pay their rents.

Upgrade your real estate portfolio

As a result, a divide has formed between REITs that are investable and those that are not. Despite many attractive yields, it is wise to avoid real estate stocks heavily exposed to hospitality, secondary retail/office markets, and struggling economic geographies (like Alberta).

If you look beyond these areas, there are some really solid opportunities. In fact, many best-in-class real estate stocks are trading well below their book value and are bargains today.

If you don't know where to look, a good place to start is with real estate focused on human essentials: housing, groceries, and e-commerce. Below are three stocks exposed to these themes. They are trading below book value and are paying attractive, sustainable dividends.

Multi-family real estate stocks

Apartment housing is a necessity, even in a crisis. People simply need places to live and rent. With many governments providing assistance to back-stop temporary rents, cash flows in this segment should be relatively stable over the short term.

One stock that is really attractive now is **European Residential REIT** (TSXV:ERE.UN). It is a REIT focused completely on Europe (particularly in the Netherlands). It just announced that it received 100% of residential rents for April. Since March, occupancy actually rose 10 basis points to 98.4%. Not many other apartment REITs have reported growth, so this is very positive.

The Netherlands has a very tight housing market. Demand for rental space is consistently strong. Of course, times are uncertain, but ERES REIT is trading at a discount to book, has a strong 4% yield, and has a very long-term acquisition pipeline. It is smaller than many peers, but it has a tonne of upside potential from here.

Grocery-anchored REITs

Grocery-anchored REITs have held up reasonably well during the pandemic crisis. **Choice Properties REIT** (TSX:CHP.UN) is one of Canada's largest grocery-anchored REITs, with a diversified portfolio of retail, industrial, and office properties. Its prime tenant and partner is **Loblaw** (a solid staple name across Canada).

The REIT just announced its Q1 results last week. It stated that it had received 86% of contracted rents for April. 75% of its retail portfolio caters to consumer-staple businesses (grocery, pharmacy, liquor, etc.), so its rental base is fairly stable. It also has a strong industrial portfolio that posted very strong operations.

The company has $79 million in cash and an additional $1.2 billion in excess liquidity. This ensures it can pay its 5.9% dividend payout for 2020.

Provinces are slowly removing pandemic restrictions, so it should revert back to fairly normal operations (and hopefully normal valuations) sometime this summer.

Real estate stocks exposed to e-commerce

E-commerce is becoming a norm across the globe. In 2020, e-commerce is expected to make up for 12-15% of retail sales in the U.S. alone. As this theme grows, demand for specifically e-commerce designed properties will also grow.

WPT Industrial REIT (TSX:WIR.U) is perfectly equipped to meet this growing trend. It has 102 modern logistics properties located across top U.S. distribution hubs. Its key tenants are consumer staple distributors, e-commerce giants, and delivery/courier services.

The REIT is trading significantly below fair market value and pays an attractive 6.7% yield. While it has some short-term revenue risk, the long-term fundamentals of this real estate class are very strong.

It has the backing of a number of Canadian institutions (AIMCO being one), which is fuelling a nice development pipeline. Overall, it has the right properties in the right locations and strong thematic tailwinds. It is a great buy today.

The bottom line

During the pandemic, look for essential, need-based real estate with secular tailwinds and the capacity to grow through these challenging times. Take the market crash as an opportunity to upgrade your portfolio and buy bargain-price, best-in-class real estate stocks today!

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