



Defend Against COVID-19 With These Resilient REITs

Description

COVID-19 has disrupted many stock portfolios. This article will introduce two residential REITs that can help defend your portfolio.

The delinquency rate is the percentage of loans that are past due. It indicates the quality of a loan portfolio.

Trepp, LLC revealed that in June, the U.S. commercial mortgage-backed securities (CMBS) delinquency rate for all property types was just 0.02% off from the all-time high of 10.34% registered in July 2012 following the last financial crisis. The data pertains to hotel, industrial, retail, office, and multifamily properties.

The data indicated that residential properties are among [the most resilient](#) property type. Only 3.29% of loans backed by U.S. multifamily properties in CMBS were at least 30 days delinquent in June, up from 1.92% in April.

Which is the best residential REIT?

Stocks that outperform will tend to continue to do so. We'll observe the period from before the last recession triggered by the global financial crisis to now.

Specifically, the following is the stock performance since late 2007, a period of almost 13 years. This is to observe how the stocks performed through the economic cycle. The chosen starting point is when the residential REIT stocks were reasonably valued.

In that period, **Canadian Apartment Properties REIT** ([TSX:CAR.UN](#)) or CAPREIT, delivered annualized returns of 10.5%. **Northview Apartment REIT** generated returns of 7.3% per year. **InterRent REIT's** ([TSX:IIP.UN](#)) returns were annualized at 11.3%, while **Killam Apartment REIT's** were 8.5% per year.

CAPREIT and InterRent delivered the best returns, which warrant further investigation on which is a

good buy today after their recent selloffs.

How's CAPREIT doing?

CAPREIT's recent results in Q1 were strong. Its net operating income (NOI) increased by 21%, while its funds from operations (FFO) per unit rose by 10.7% year over year.

The REIT's performance has been very defensive amid the pandemic. It collected 98% of its rents in April. Additionally, in mid-May, its portfolio occupancy was 98%.

CAPREIT manages more than 64,600 residential suites across Canada, the Netherlands, and Ireland. It's invested about 9% in Europe through its interests in **European Residential REIT** and Irish Residential REIT.

Its core focus is in Ontario, where 44% of its portfolio resides. Within the province, many of its assets are in the Greater Toronto Area. 74% of its pipeline of potential developments is also in the province. At writing, the quality residential REIT trades at \$48.69 per unit, providing a yield of 2.8%. A 12-month upside potential of 17% is in the cards, according to the average analyst price target.

How's InterRent doing?

In comparison to CAPREIT, it's easier for InterRent to achieve a faster growth rate due to its smaller size. InterRent has about 10,226 total suites across Ontario and Quebec.

Its March occupancy rate remained strong at 95.3%. For Q1, its NOI climbed 16.8%, while its FFO per unit increased by 9.5% compared to Q1 2019.

In June, InterRent successfully raised \$230 million via an equity offering at \$14.65 per unit. This increases the company's liquidity and provides more flexibility for it to make attractive acquisitions that could potentially be available through this challenging economic period.

InterRent stock has declined 27% from its high and trades at a discount to the equity offering price. At \$13.48 at writing, the fast-growing REIT offers near-term upside of almost 23% according to analysts' 12-month average price target. It also pays a 2.3% yield that improves overall returns.

The Foolish takeaway

Both CAPREIT and InterRent have sold off to more reasonable levels. The residential REIT space they operate in is resilient against recessions. They should do well for investors who are buying for stability and long-term growth.

CATEGORY

1. Coronavirus
2. Dividend Stocks
3. Investing
4. Stocks for Beginners

TICKERS GLOBAL

1. TSX:CAR.UN (Canadian Apartment Properties Real Estate Investment Trust)
2. TSX:IIP.UN (InterRent Real Estate Investment Trust)

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