Canadian Real Estate: 2 REITs to Buy Now

Description

The real estate sector is usually one that's generally resilient during an economic slowdown. However, this time around, the pandemic has amplified the effects.

Real estate may be the one industry that has seen the biggest divergence of impacts on business. Industrial and warehouse real estate investment trusts, for example, have actually seen an increase in demand since the start of the coronavirus pandemic. On the flip side, retail real estate has been one of the hardest-hit industries of the pandemic.

This wide divergence offers investors a lot of opportunities to find stocks that fit their portfolio. You may want a stable REIT that can help protect your capital. Or maybe you want a battered REIT that offers significant upside as the economy recovers.

Whatever your preference is, these are two of the best **TSX** REITs to consider first.

Retail REIT

One of the TSX REITs with the biggest upside is **RioCan REIT** (TSX:REI.UN). RioCan primarily owns retail properties across Canada, but it also has a small residential portfolio as well.

Retail companies have been some of the hardest-hit businesses, especially as online shopping has continued to thrive and become more popular.

In April, the month of the major shutdowns, RioCan managed to collect just 65% of its commercial rents.

So, it's no surprise the stock tanked by more than 50% in the market crash and remains more than 40% off its pre-pandemic highs today.

With Canada recovering well and many retail businesses back to operating, albeit with restrictions, RioCan has seen its business recover substantially.

To date, RioCan has already collected 85% of July rent from its commercial tenants, highlighting the rapid improvement in its counter-party risk.

Furthermore, its occupancy rate only declined by 30 basis points quarter over quarter and still sits at 96%.

At this price, more than 40% off its high, RioCan is offering investors a significant opportunity for capital gains.

Residential REIT

Another top TSX REIT to consider is **Killam Apartment REIT** (TSX:KMP.UN).

Killam is a residential REIT that primarily owns apartments and manufactured home communities. Its assets are primarily located in Atlantic Canada.

As would be expected, Killam hasn't been too impacted by the pandemic. Residential real estate is highly defensive. This is evidenced by Killam's strong rent collection in the second quarter, which came in at upwards of 98%.

In addition to the operations, which have remained resilient, Killam is also in a very strong financial position. Plus, with its recent equity issue, the company just added even more liquidity.

Killam's increased liquidity will allow it to pay down some debt as well as give it the flexibility to finance any acquisitions or developments it wants to move forward on this year.

This is a strong move, showing Killam is looking forward while remaining cautious. The REIT is committed to positioning itself for life after the pandemic while not overleveraging itself during all the uncertainty.

Killam is clearly one of the strongest TSX REITs. And with its share price trading more than 25% off its 52-week high and below most of its peers, the stock is priced well for savvy investors to take advantage of it. Not to mention its high-quality dividend, which pays out just under 4%.

Bottom line

There are several high-quality opportunities in Canadian real estate, whether you want a contrarian play like RioCan that can provide huge growth as the economy rebounds, or a proven winner like Killam that you can count on to continue to grow your capital.

Whatever you decided is best for your portfolio, make sure that you are investing on a long-term basis.

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1. Editor's Choice

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1. TSX:KMP.UN (Killam Apartment REIT)
2. TSX:REI.UN (RioCan Real Estate Investment Trust)

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Date
2025/08/23
Date Created
2020/07/31
Author
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