Is It Worth Buying Canadian REITS in 2020?

Description

It’s been a bad year for REITs. The pandemic has weighed on rents, with both residential and commercial leases worsening in quality. From brick and mortar retail outlets to multi-home units, 2020 has been a tough year for the rental market.

But if investors were seeing a light at the end of the tunnel, it may be more distant that the bulls would have them believe. There are at least three reasons why the REIT scene could get worse before it gets better in the latter half of the year.

Consider the fact that the coronavirus is far from contained in North America. While a certain brand of patriotism may be glossing over the worst of the statistics, the fact is that a vaccine is still some way off. Meanwhile, cases are rising in certain areas. A second wave threatens others. Now consider a replay of the effects that the initial emergence of COVID-19 had on industrial activity and consumer appetites.

Next, factor in a premature drying up of fiscal stimuli. This will have a direct impact on the residential rental environment. The other big unknown, then, is the U.S. election this November. The market abhors uncertainty, and political divisiveness is likely to churn up equities in the fall. The casual real estate investor will have to contend with an extremely frothy market beset by near-term stressors.

The case for going long on REITs

You’ve heard the bearish case, but what about the bull case for REITs? This asset type is good value for money at the moment. It’s also a key area to watch for upside from a recovery. Investors should gauge whether they can stomach a bit of risk in the near-term.

If their financial horizons are broad enough, ferreting away some cheap shares in the biggest real estate vehicles could pay off big time in the long run.

Next, investors should figure out how much risk they can handle. As with most areas of investment, the greatest returns potential usually carries the greatest levels of risk. It’s the same story with REITs.

Some of the most defensive names, such as **CAPREIT**, also bring hefty returns potential. But it's the riskier types, such as retail and office REITs, that could bring the steepest relief rally upside.

Investors seeking the widest margins should take a look at **Dream Office REIT** for its 5% dividend yield and 22% dip in the last 12 months. Another play for a recovery could see names like **Slate Retail REIT** enjoy some improvement. This name carries a 12.6% dividend yield and trades with below market-weight multiples. Down 30% year on year, this name could rally hard on a vaccine breakthrough.

Of course, there is still a quagmire of risk awaiting investors in 2020. From the U.S. election and virus setbacks to disheartening economic revelations and international tensions, uncertainty abounds.

Indeed, the stressors that have chewed up REITs are still very much with us. However, for investors bullish on a turnaround, the above named REITs could be made of solid upside in the longer term.

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