Top 3 Real Estate Stocks for October

Description

It's no surprise that real estate is in a precarious position. Millions of people have lost their jobs, while malls and restaurants have been shut for months. Even now, after the reopening, footfall in most commercial properties is limited. Meanwhile, the deferral cliff could cause worries for residential real estate investors.

This pervasive sense of fear has suppressed the valuations of all stocks remotely exposed to the real estate sector. That's created opportunities in certain pockets of the diverse real estate sector. Here are my top three picks for October and beyond.

Healthcare properties

Unsurprisingly, healthcare properties, such as the ones owned by **Northwest Healthcare** (TSX:NWH.UN) are insulated from the rest of the economy. In fact, demand for clinics and hospitals has only increased during this pandemic.

With that in mind, Northwest could be the safest real estate investment trust (REIT) on the market right now. The stock offers a juicy 7% dividend yield. Meanwhile, the stock price is down just 1.5% year to date. In other words, it survived the crisis and is still a bargain dividend stock.

What I love about healthcare properties is the time horizon. Clinics and medical facilities sign leases for several years and aren't as likely to go out of business as a mom-and-pop shop. Northwest's average lease term is 14.4 years. Meanwhile, 85% of its revenue is backed by public healthcare funding.

A dividend stock doesn't get more reliable than this.

Minto residential

While commercial real estate has been plunging in value, residential real estate has been surging. For some inexplicable reason, people have been buying more and bigger houses over the past few months.

Minto Apartment REIT (TSX:MI.UN) is perfectly well placed for this trend. Its residential portfolio has seen an uptick in demand. What's more: 72% of the company's portfolio is based in Ottawa, where house prices have jumped a whopping 20% year over year in recent months.

This spike in demand for housing will ultimately be reflected in Minto's balance sheet. The book value should increase in the next quarterly report. However, Minto's stock is trading at a 14% *discount* to its previously reported book value per share. That makes it the perfect bargain opportunity for real estate investors.

At the moment, the stock offers a 2.5% dividend yield. I would expect the dividend to grow a few years later when the economy recovers, jobs are back and rents rise again.

American residential

Compared to Canada, America's real estate market is better valued. The price-to-rent and price-to-income ratio is much higher in Canada, which makes our real estate market more vulnerable.

Tricon Residential (TSX:TCN) has more exposure to American residential properties. The majority of Tricon's portfolio is single family rental properties in America. According to my Fool colleague, Aditya Raghunath, the relief payments under the U.S. CARES Act total up to over $4,000 per month, per household have supported Tricon's tenants throughout this crisis.

Now that much of the country has reopened, America's job recovery is on track to support Tricon's tenants further. That puts a floor on the company's cash flows and attractive 2.5% dividend yield.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:MI.UN (Minto Apartment Real Estate Investment Trust)
2. TSX:NWH.UN (NorthWest Healthcare Properties Real Estate Investment Trust)
3. TSX:TCN (Tricon Residential Inc.)

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vraisinghani