3 Undervalued REITs to Buy Right Now

Description

Real estate has been one of the slowest-recovering sectors after the pandemic, and according to the warnings of several experts, it might be in for another unpleasant surprise — i.e., a housing market dip. It is likely to impact REITs and other real estate stocks that are most exposed to the housing market, but even commercial REITs might get buffeted by the headwinds.

Since it's not possible to accurately predict and plan for the next dip, you might want to take advantage of the slow recovery of the sector now and add some undervalued REITs to your portfolio.

An office REIT

Dream Office REIT (TSX:D.UN) is an office-focused REIT with assets in five cities. The portfolio consists of 30 properties, with a weighted average lease term of 5.1 years and an 88% occupancy rate, which might improve as the economy's recovery picks up pace. 2020 was rough for the REIT, but the revenues have started to recover, and the stock has started to follow, slowly but gradually.

Still, it's quite attractively valued at the moment. It's trading at a price-to-earnings multiple of 6.2 and a price-to-book multiple of just 0.7 times. The 4.7% yield is backed up by a sustainable payout ratio of 34.1%. The yield is secure and attractive enough, but another reason to consider this undervalued REIT is its capital growth potential. It has gone through three growth cycles in the last two decades, and it looks poised for a fourth.

An apartment REIT

Minto Apartment REIT (TSX:MI.UN) is a relatively new REIT. It was founded in 2018 and has a portfolio of 29 urban residential properties (with a total of 7,245 suites) that are strategically located. The REIT has an occupancy rate of 95.5%. Most of its properties are in three cities: Ottawa, Toronto, and Montreal. It's part of a larger group of companies, with 65 years' worth of expertise and reputation to back it up.

It’s one of the few REITs that didn’t slash dividends last year. In fact, it has grown its payouts (slightly) four times in the last four years. And even if the 2% yield isn’t attractive enough, its valuation is a major plus to consider. It’s trading at a price-to-earnings multiple of 4.5 and a price-to-book multiple of 0.9 times. Before the crash, it was growing at a steady pace, and hopefully, it will do so again in the future. So, buying it undervalued might be a smart move.

A healthcare properties REIT

While it’s not *as* undervalued as the other two, **Northwest Health Properties REIT** (TSX:NWH.UN) is quite attractively valued, especially if you consider the fact that it has reached its pre-crash valuation. It’s also offering the most generous yield out of the three — i.e., 6.1% — and the payout ratio is quite safe at 44.8%.

The REIT has an impressive portfolio of 189 properties spread out across three different regions (Americas, Europe, and Australia). Its tenant portfolio, which is 80% government-supported, endorses the strength of its revenues and, consequently, its dividends. The REIT offers more than just dividends. It offers relatively slow but steady growth, especially if you consider its performance in the last five years.

Foolish takeaway

The three undervalued REITs offer a decent mix of capital growth opportunities and dividends, and in their current undervalued condition, they might prove even more profitable over time than they would have at full strengths. But the best part is that all three seem financially stable and have recently proven that they can stand tough market conditions without slashing dividends.

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2. TSX:MI.UN (Minto Apartment Real Estate Investment Trust)
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