Forget Buying a House! 2 REITs You Can Actually Afford

Description

Should property investors invest in real estate investment trusts (REITs) rather than buy rental properties in 2021? The Canada Mortgage & Housing Corporation projects home sales this year to be 602,000, although economists warn of a housing market bubble.

Prices rose by as much as 30% and hit record highs in 2020. The financial system's exposure to the mortgage market is double compared to the U.S. However, any downturn could be disastrous to Canada's economy.

For this reason, REITs are better investment alternatives than purchasing physical properties. The cash outlay is more affordable, yet would-be investors still earn income like a real landlord. Similarly, you avoid an impending bubble burst that could send prices plunging dramatically.

Modern industrial properties

REITs are income investments, so they should attract dividend investors. However, the safe and wisest choice for risk-averse Canadians is **Summit Industrial** (TSX:SMU.UN). The $2.67 billion REIT is the owner and manager of light 158 best-in-class industrial properties across the country. At $15.94 per share, the dividend yield is 3.55%.

Summit stands out in the sector because of its successful internal growth strategy that emphasizes tenant retention, rental rate optimization, and a focused capital expenditure program. The REIT acquires modern and efficient industrial properties that are in major growth population centers.

Low capital investment and maintenance expenditures are the typical characteristics of properties in the light industrial sector. Apart from lower operating costs, Summit's portfolio features high-value generic-use spaces. The rental properties are also highly marketable. The risk of rent volatility or vacancy is almost negligible, as evidenced by the 99.5% occupancy rate and nearly 100% retention rate.

Largest multi-family residential REIT

Canadian Apartment Properties (TSX:CAR.UN) or CAPREIT is about four times bigger than Summit Industrial. This $9.81 billion REIT's portfolio consists of residential properties that include apartment buildings, townhouses, and land lease communities. Apart from Canada, CAPREIT has leased properties in Ireland and the Netherlands.

In Q1 2021 (quarter ended March 31, 2021), CAPREIT displayed resiliency once more. Its total operating revenues and net operating income (NOI) increased by 5.3% and 6.2% compared with Q1 2020. Notably, the level of rent collection was very high at 99%.

Regarding annual occupancy, management aims to achieve and maintain an occupancy rate of between 97% and 99% over the long term in each of the geographic regions where CAPREIT operates. In Q1 2021, the overall portfolio occupancy was 97.3% from 98.2% in Q1 2020. The competitive advantages of this REIT are its strong financial position and flexible balance sheet.

CAPREIT's available liquidity on its acquisition and operating facility at the quarter's end was $578.3 million. For 2021, management expects to raise between $900 million and $950 million in total mortgage renewals and refinancing. Moreover, the Canadian investment properties worth $1.16 billion have no mortgage liens or encumbrances.

The real estate stock trades at $57.05 per share and pays a modest 2.47% dividend. CAPREIT's yield may be lower than the TSX's average dividend, but you'd be investing in a REIT that's well known for its quality portfolio.

Continued price growth

CMHC foresees home sales to slide to roughly 547,000 in 2022 before it climbs to 561,000 in 2023. Meanwhile, prices are likely to surge to $704,000, on average. If inflated prices worry you, it's better to invest in REITs than physical rental properties at inflated prices.

CATEGORY

1. Dividend Stocks
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1. TSX:CAR.UN (Canadian Apartment Properties Real Estate Investment Trust)
2. TSX:SMU.UN (Summit Industrial Income REIT)

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