3 REIT Stocks to Buy in a Heated Housing Market

**Description**

The housing market is still super-hot, and even though the temperature is turning, it's not like someone has poured ice-cold water on this blazing hot concrete to cool it off (dangerous!). The market is moderating or normalizing and could drop to reasonable levels by the end of the year.



It's a good thing for the economy, even if it might not produce as many buying opportunities for value investors (in both housing assets or related stocks). But there is a chance that businesses like mortgage companies and residential REITs might see a correction in the near future.

That would be a good time to buy into those REITs and take advantage of a discounted valuation. For now, a prudent approach would be to stick to commercial REITs and stay away from the uncertain housing market.

## One of Canada's largest REITs

**RioCan REIT** (TSX:REI.UN), with a market capitalization of $7 billion and a portfolio consisting of 38 million square feet of leasable area (and 223 properties), is one of the largest REITs in Canada. It has both a residential and commercial front and a strong focus on developing new properties. The tenant portfolio is amazing as well and includes names like **Metro**, **Loblaws**, and **Canadian Tires**.

The REIT is not very expensive at the moment, at least from a price-to-book value (0.9 times) perspective. The balance sheet is strong, and the revenues, even though they are not stellar, are quite steady. It's offering a juicy 4.36% yield at a relatively high payout ratio. One chink in RioCan's armour is that it slashed its dividends in 2021, but for new investors, it might be an opportunity since the REIT is highly unlikely to do so again in the near future.

## A Dividend Aristocratic yield

If a REIT that has already slashed its payouts doesn't seem like an ideal fit, consider investing in a high-yield Dividend Aristocrat like **SmartCentres REIT** (TSX:SRU.UN). It has grown its payouts for seven consecutive years and is currently offering a mouthwatering yield of 6.2%. The REIT didn't offer any appreciable capital growth potential before the crash, but since its 2020 crash, the REIT has grown by almost 70%.

While the payout ratio currently is dangerously high, the REIT hasn't slashed its payouts yet, and it won't unless it's willing to lose its Dividend Aristocrat status. It has an impressive portfolio of 168 properties located in strategic positions across the country.

About 60% of its revenue comes from strong, credit-worthy tenants like **Walmart**, which anchors 115 of its properties. The current portfolio is worth $10.3 billion, and it's expected to grow to $13.5 billion once one of its major projects is fully developed.

## A relatively smaller yield

With a market capitalization of about $339 million, **PRO REIT** (TSX:PRV.UN) is the smallest REIT on this list, and it offers the best yield (6.4%). It also slashed its payouts in 2020, so it might not do so again anytime soon. Another fact to endorse that notion is that the REIT is sustaining and slowly growing its revenues. The stock has also shown quite an impressive growth in the last 12 months (63%).



PRO REIT has a well-diversified portfolio and a presence in nine provinces. It has 93 properties, including industrial, which made up about half the revenue in the first quarter, retail, and office properties. Despite being a relative "lightweight" compared to its sizeable peers, PRO REIT has access to an impressive tenant base.

## Foolish takeaway

The housing market in Canada, even if it cools down in the next few months, will stay unaffordable for years, and the impact might not just be felt by homebuyers. Retail investors who try to invest in the real estate market using alternative approaches like syndication and private lending should consider staying clear of this path until the housing market becomes sustainable.

**CATEGORY**

1. Dividend Stocks
2. Investing

**TICKERS GLOBAL**

1. TSX:PRV.UN (Pro Real Estate Investment Trust)
2. TSX:REI.UN (RioCan Real Estate Investment Trust)
3. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)

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