3 REITs to Buy Instead of Unaffordable Property

Description

As an investment asset, real estate has a high-cost barrier by default. It's not an affordable asset class for most retail investors, even if you take syndication into account. And that's when the housing market is normal. The current Canadian housing market, which has only started to cool-off is likely to stay expensive for years to come, that is, an overvalued investment asset.

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So if you are adamant about getting exposure to the real estate market, the next best option is investing in REITs. There are numerous benefits, including a very low-cost barrier, relatively generous dividends, and liquidity of the asset, which allows you to exit your position virtually instantaneously if need be.

A commercial REIT

Melcor REIT (TSX:MR.UN) spun off from Melcor developments and had its initial public offering in 2013. It's a commercial REIT with a focus on the Western Canadian real estate market. The portfolio is made up of 39 properties, mostly office, retail, and a few industrial properties. The office properties suffered from a relatively lower occupancy rate in 2020, but it's expected to improve now that the pandemic is behind us.

Melcor stock dipped quite a bit during the pandemic, but it's now on the mend. It grew over 85% in the last 12 months. The REIT had to slash its dividends quite a bit in April 2020, but it *has* started to grow its dividends again, and if you buy now, you might see a significant increase in the payouts in the coming years. But that's contingent on whether or not the REIT is planning to hit its pre-pandemic payout. The current yield is 6%.

A shopping centre REIT

SmartCentres (TSX:SRU.UN) is all about shopping centres. It's the largest developer and operator of its kind in the country and has a portfolio of about 168 properties, about 68.4% of which are anchored by **Walmart**, giving its portfolio a lot of tenant-stability. Most other tenants are creditworthy leaders in their respective industries, including telecom giants and big five banks.

SmartCentres still retains its title of an aristocrat, but it will need to grow its dividends in 2021, or it will lose this title. The REIT is offering a generous 6.1% yield at a very high payout ratio. The yield is enough to get you about $500 a month if you invest $100,000 in the REIT, which is equal to a 20% down payment on a modest, half-a-million-dollar property. And this “rent” comes with no maintenance deductions and active landlord responsibilities.

A niche commercial REIT

If mainstream retail and shopping center properties are not your cup of tea, you might consider a niche REIT like **Automotive Properties REIT** (TSX:APR.UN). It has a portfolio consisting solely of car dealership properties (66 of them), in major metropolitan markets. Dealerships in GTA, GMA, Ottawa, and Calgary make up almost 70% of the market.

The REIT works with 32 automotive brands, ranging from affordable and commonplace to luxury vehicles, including some of the most beloved brands in Canada. A steady income source equals consistent and reliable rent, which is the core strength of this REIT. It’s currently offering a 6.3% yield at a stable payout ratio of 82.7%.

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Foolish takeaway

The housing market in Canada is just finishing one of the strongest bull runs in history, and even though some investors might still be bullish on this market, many might be turning away to other assets. REITs offer you a great way to get into the real estate market and still stay away from the rapidly changing housing market.

CATEGORY

1. Dividend Stocks
2. Investing

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2. TSX:MR.UN (Melcor Real Estate Investment Trust)
3. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)

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adamothman

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