The Best Canadian Stocks to Buy and Hedge Against Inflation

**Description**

Canada's consumer inflation rate roared to a 10 year high of 3.6% in May before slowing marginally to 3.1% for June, but the consumer price index (CPI) rate of increase remains elevated. The situation is a bit worse in the United States where the June CPI rose to 5.4%. Experts warn that general price increases could be here to stay, and investors should be prepared.



## Why should you care about the Canadian CPI?

We invest today so we can grow enough capital to buy something tangible like a house, send children to college, or finance our living expenses in retirement and maintain a decent lifestyle.

If the general prices of goods and services, as measured by the CPI, keeps rising in the economy, chances are high that you may fall behind on your financial goals by a wide margin, and more so if portfolio returns fall below inflation rates. In such an event, more capital may be needed to finance the gap, or you may be forced to sacrifice your desired standard of living.

I once lived in an economy where everyone became a billionaire in just a few months in 2008, and pension plans were reduced to nothing. Of course, that was extreme. Nothing like that will happen in a solid economy like Canada, I am confident about that. However, rising CPI levels (even at low ranges) have a negative impact on the real value of your financial assets. Annual returns should be much higher to compensate for losses to real purchasing power.

## The best stocks to buy and hedge against inflation

You need not panic though. Investment opportunities are available that can shield your capital from the wrath of price increases. Some of the best options lie in Canadian Real Estate Investment Trusts (REITs). Among all REIT types, apartment REITs seem to offer the best inflation protection right now.

Here are three strong reasons why apartment property trusts are your best friend during periods of unexpected general price increases.

First, residential REITs have *short-term lease contracts*, which usually go for just one year. They can adjust and review rental rates faster than most pears whose rates are locked in multi-year leases with potentially inadequate price escalation clauses. The ability to frequently readjust rentals with every new tenant, and every 12 months thereafter, give apartment REITs significant price renegotiating power to protect their real income.

Secondly, *rentals could increase at above-average CPI rates*. The cost of shelter increased by 4.2% in May, the fastest rate since 2008. Housing inflation was higher again at 4.4% in June. Rentals are also catching up to a property price bubble that has been building up in Canada for years now. This is a great time to be a landlord, and it's a good time to be invested in apartment REITs.

Lastly, *real estate assets have proven to be great inflation hedges for decades*. Property prices have been rising at above CPI rates for years. REITs frequently adjust the fair value of their properties. Unit prices often reflect such fair value gains during periods of high general price increases. Apartments REITs may be insanely profitable as the CPI gallops forward.



## Buy Canada's largest landlord

The **Canadian Apartment Properties REIT** (TSX:CAR.UN) or CAPREIT owns and has interests in over 67,600 residential apartment suites, townhomes, and manufactured housing communities. The bulk of its properties are located in Canada, with 10% of the portfolio invested in Europe. The trust is the largest listed residential property investor in Canada.

CAPREIT saw its rental income rise by 5.3% year over year during the first quarter of 2021. Some earlier acquisitions, rent increases, and a strong occupancy rate of over 97% boosted its rental cash flows. The trust maintained very high rent collection rates at around 99% during the coronavirus pandemic. There's little concern for lower collections if the Delta variant causes new lockdowns.

Most noteworthy, CAR.UN pays a well-covered monthly distribution that has been increased at an average rate of 2% per annum over the past five years. The trust's normalized funds from operations (NFFO) payout rate remains low at 62.3% recently.

The fair value of CAPREIT's properties increased by $53 million during the first (before foreign currency adjustments) and property inflation could see net asset values continue to increase in 2021.

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1. Dividend Stocks
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