2 Undervalued REITs to Back Up the Truck on

Description

Many undervalued REITs on the TSX have still yet to recover from the damage brought forth by last year's brutal stock market crash. Indeed, retail and office REITs have felt most of the pain. And with their valuations still at the lower end of the historical range, I think there are opportunities for income investors to lock in a higher yield alongside greater capital gains potential. Undoubtedly, such hard-hit REITs are some of the many reopening plays in this pandemic-plagued market, and they come with their own share of risks.

Still, many REITs are positioned to do relatively well in the new normal, even if Delta or other variants lead to further waves over the next 18 months. Some REITs, like **SmartCentres REIT** (TSX:SRU.UN), held up quite strong through the worst of last year's pandemic headwinds. And it's these names that are among some of the more prudent reopening plays out there. While such REITs have partially recovered on the back of normalizing quarters, I still think there's value to be had in the real estate space for value investors who are willing to go against the grain.

Undervalued REITs to buy

Over the past few years, we've seen U.S. firms continuing to acquire REITs on this side of the border. I think that's a testament to how much value is in the thinly traded Canadian REIT scene these days. Undoubtedly, industrial REITs have been scooped up by alternative asset managers south of the border. But in the less-certain retail and office space, I still see some pretty deep value for those willing to take a chance.

Consider SmartCentres REIT and **Automotive Properties REIT** (TSX:APR.UN), which command 6.2% and 6.3% yields, respectively, at writing.

SmartCentres REIT

SmartCentres is a retail REIT that did a remarkable job of weathering the storm last year. Amid lockdowns, shopping malls felt immense pain. But those that housed essential retailers were mostly spared. Smart was in the latter category. Although it was fortunate, one must not discount the firm's recovery potential and its long-term growth profile, which has gone largely unnoticed by hasty investors.

With rent-collection rates nearly at normal, Smart's distribution looks to be on some of the steadiest footing in all of the retail real estate scene. Moreover, the company's move to diversify into mixed-use properties (that's retail and residential), I believe, could be a source of long-term distribution growth.

In any case, I think Smart is still misunderstood by investors and wouldn't be surprised to see the names outperform over the next year.

Automotive Properties REIT

Automotive Properties REIT, an auto dealership REIT, has mostly recovered from its 2020 lows. Amid the pandemic, few places have been hotter than the local dealership. And as the REIT's tenants prosper, so too will it ahead of this booming market environment.

The REITs payout is more than safe, with an incredibly long average lease term of nearly 13 years. That means the REIT will hold up and continue paying handsome distributions to shareholders, even once the auto boom peaks out and reverses, as it tends to do in accordance with the economic cycle. I'm a big fan of how the REIT is run and would encourage bargain hunters to check out the name if they seek income and appreciation over the next decade and beyond.

CATEGORY

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

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