3 REITs to Consider As the Sector Goes Through Major Reforms

Description

The real estate sector, especially the housing market, is going through some serious changes. Perhaps the most important one is that the government is considering blocking foreign capital from entering the local housing market. It's expected to cool it off and make property prices affordable for Canadian homeowners.

Another change expected to discourage investors from entering the housing market is the NDP's intent to raise the capital gains tax on a property that's not an investor's primary residence, from 50% to 75%. It might cut down the profit margin substantially.

These changes are expected to divert investors away from housing, and it could have unexpected consequences for some REITs. If you want your real estate holdings to stay sheltered from any adverse effects, three REITs should be on your radar.

A retail REIT

With a market capitalization of $7.1 billion and a portfolio of 199 properties, **RioCan** (TSX:REI.UN) is one of the largest REITs in Canada. Most of its properties are concentrated in GTA and Ottawa, and the rest are spread out in Montreal, Vancouver, Edmonton, and Calgary. And even though it *has* exposure to the residential sector, it's relatively minimal.

Over 91% of the revenue came from retail properties in the last quarter, 7.4% from office, and only 1.3% from residential properties.

Another strong point in favour of this REIT's portfolio is its tenant diversification. Along with a decent number of grocery and pharmacy-focused tenants, the REIT also has tenants from essential value services, apparel, furniture, and a few other domains. The REIT is currently offering a juicy 4.2%, and the capital appreciation potential is minimal.

A retirement residence stock

Specialty landlords like **Chartwell Retirement Residences** (TSX:CSH.UN) are a great way to shelter your income-producing real estate portfolio. That's because, thanks to their niche market segment, they don't suffer quite as brutally along with the rest of the sector during market downturns. This also renders them vulnerable to problems within their business domain, but since this REIT is linked to a stable business (senior care), the risk is minimal.

Chartwell has a geographically diversified portfolio of over 200 retirement communities spread out across four provinces. The company is currently paying dividends at a relatively decent yield of 4.8%. The stock was quite stable before the pandemic but has been in recovery ever since. The payout ratio is currently relatively high, but the company is sustaining the payouts, and if the history is any indication, it might try to grow its payouts.

An automotive property REIT

Another specialty REIT is **Automotive Properties REIT** (TSX:APR.UN), which is currently offering a mouthwatering yield of 6.3%, at a very stable payout ratio of 39%. The REIT, as the name suggests, focuses on automotive properties, primarily car dealerships. It caters to dealerships covering about 32 brands and essentially three vehicle categories: Mass market, luxury, and ultra-luxury.

The bulk of the revenue is generated by mass-market brands, and from a geographical perspective, most of the income comes from the GTA, GMA, and Ottawa. Thanks to the niche real estate market, this REIT has limited competition and a lot of room to grow, especially as electric vehicles become more commonplace and many people start buying.

Foolish takeaway

The housing market is already slowing down, and even though the effects of the higher capital gains tax and no foreign capital (once they are enforced) are a bit of a black-box now, they are unlikely to favour investors.

If the property prices go down and consequently rents do as well, both individual investors and those exposed to the sector via residential REITs (which make great dividend stocks) might feel the impact.

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