



1 Key Reason Why the REIT Sector Could Have Room to Run

Description

Among the top [dividend-paying](#) sectors investors look at is real estate. Within this group, real estate investment trusts (REITs) provide long-term investors with income and stability. Accordingly, the REIT sector continues to be a favourite for investors nearing or in retirement.

However, there could be arguments to be made that the REIT sector is one that's broadly overlooked by mainstream investors right now. Indeed, given the momentum growth stocks have seen of late, this view is understandable.

However, I think there are some great options in the REIT sector for long-term investors, young and old, to consider. Let's take a look at why this is a space that investors shouldn't ignore right now.

M&A activity to boost valuations

M&A activity in the REIT sector has begun to pick up. Among the [deals](#) that have made headlines of late is a deal between Quebec-based Canderal, in collaboration with a team of real estate investors, to acquire **Cominar REIT** (TSX:CUF.UN).

This \$2.2 billion deal will enable Canderal to expand its portfolio of commercial and retail space in cities like Montreal, Quebec, and Ottawa. The deal would carry a total value of around \$5.7 billion, including debt.

Canderal Real Estate would be leading the team of buyers, which would include Sandpiper Group, **Artis REIT**, Koch Real Estate Investment, and FrontFour Capital Group LLC. Canderal, which has its operations in all major Canadian cities, started to consider buying Cominar back in 2020. The REIT looked for buyers back in 2020 when it declared to hold a formal review process.

If this deal goes through, Canderal and other participating buyers will get to control over 80% of Cominar's properties. This would translate to 310 properties in the retail, industrial, and retail sectors. Gare Centrale, which is the primary train station of Montreal, is also one of those 310 properties.

This deal is set to be one of the largest real estate deals so far in 2021. As part of this deal, U.S.-based private equity firm **Blackstone** will purchase Cominar's industrial properties. However, Montreal-based Groupe Mach will buy some of its retail spaces.

This deal still needs to pass a shareholder vote, which is the wildcard investors need to consider at this point.

Micro and macro factors pushing the REIT sector up

At the macro level, the likelihood that inflation continues higher could be a boon for real assets. Given the recent CPI numbers reported, there's a significant likelihood this existing macro environment will continue. Accordingly, I remain bullish on owning assets with the potential to increase in value alongside inflation.

From a micro perspective, REITs come with some significant aspects that are making this sector a highly attractive one in the backdrop of the current reopening scenario. REITs stand to benefit greatly, as economies reopen and more people begin to venture out. Additionally, the REIT sector provides long-term investors with bond-like yields that are hard to come by right now.

Bottom line

The REIT sector is one I think provides a great risk/reward tradeoff right now. For defensive investors, the income generation from these assets is meaningful. Accordingly, there's a reason to like these assets in a downturn.

Of course, risks exist with this sector. The housing market, particularly in Canada, could indeed be in bubble territory, if not frothy at a minimum. Accordingly, investors should always focus on diversifying their assets across multiple high-quality asset classes.

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