2 Real Estate Stocks to Buy in a Red-Hot Market

Description

The Canadian Real Estate Association (CREA) expects sales in the red-hot housing market to moderate in 2022, but not home prices. Real estate investors are advised to hold off buying physical properties because of inflated prices. Some mortgage experts say a significant market correction is possible due to extreme valuation and policy uncertainty.

According to Hazelview Investments, real estate investment trusts (REIT) are viable investment options this year. Its global outlook report said the potential of sustained inflation will act as a tailwind for real estate valuations. The strengthening fundamentals will likewise drive attractive earnings growth in REITs.

Among the real estate stocks you can consider are **RioCan** (TSX:REI.UN) and **SmartCentres** (TSX:SRU.UN). Apart from their steady performances in 2021, both REITs pay attractive dividends. Would-be investors can earn recurring income streams like actual landlords of rental properties.

Asset mix curation

RioCan is one of Canada's largest REITs with its $6.99 billion market cap. While this REIT is retail focused, its mixed-use properties in prime, high-density transit-oriented areas are growing. Its president and CEO, Jonathan Gitlin, said, "RioCan has created one of Canada's preeminent portfolios by strategically curating our asset mix through capital recycling initiatives."

In the nine months ended September 30, 2021, RioCan is no longer in the red. Its net income rose to $389.6 million from a $130.4 million net loss a year ago. Moreover, the REIT enjoyed a 96.4% occupancy rate and 98.1% in rent collections. The blended leasing, new leasing, and renewal leasing spreads increased to 6.8%, 10.5%, and 5.5%.

Notably, RioCan's purpose-built residential rental portfolio continues to expand. As of November 9, 2021, there are 1,428 completed units and 1,324 units under development. Liquidity-wise, RioCan had $1.1 billion in cash and cash equivalents plus undrawn credit lines after three quarters.

For 2021, RioCan's total return was 42.91%. At $22.94 per share today, the dividend yield is 4.18%.

Generous dividends

Smartcentres is an excellent dividend play for income investors. The real estate stock trades at $32.19 per share and offers a lucrative 5.75% dividend. Last year, investors were content with the 49.1% total return. This $5.26 billion fully integrated REIT boasts a best-in-class portfolio of value-oriented retail properties.

According to management, the strong results in Q3 2021 reflect the REIT's operational resiliency, improved leasing momentum, high occupancy rate (97%), and significant increase in cash flows (97%). The net income of $178.1 million represents a 60.45% increase versus Q3 2020.

At the quarter's end, SmartCentres had 168 income-producing properties, with an average lease term of 4.5 years. Its executive chairman and CEO, Mitchell Goldhar, said, "We ended with solid performances from every aspect of the business." The REIT's intensification program will commence construction in the next five years.

The intensification program under the SmartLiving banner consists of rental apartments, condos, seniors' residences and hotels. The SmartCentres banner will develop retail, office, and storage facilities. SmartCentres is uniquely positioned to reshape the Canadian urban and urban-suburban landscape, says management.

Inflation hedges

Hazelview Investments believe properties with short and long-term leases may benefit in an inflationary environment. Landlords will have negotiating power for short-term leases and long-term leases as inflation hedges. Last, a strong economy should support the pricing power and earnings growth of REITs.

CATEGORY

1. Dividend Stocks
2. Investing

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

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Date
2025/08/20
Date Created
2022/01/03
Author
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