



## 3 REITs to Own as National Rental Prices Climb Higher

### Description

The affordability crisis is not be limited to homebuyers but also to tenants if national rental prices are rising too. Bob Dugan, the chief economist at Canada Mortgage and Housing Corporation (CMHC), said rents are rising due to a supply-and-demand imbalance.

CMHC's latest annual rental market report showed a 3% increase in the average rent from 2021, particularly for a two-bedroom home. Dugan added that the different speeds of recovery by cities in the latest stage of the pandemic is affecting rental prices.

The national vacancy rate is likewise lower compared to 2020 (3.1% versus 3.2%), although it's higher than the 2.2% in 2019. In the real estate investment trust (REIT) sector, three stocks could benefit from this development. Because prices in the housing market are inflated, many potential buyers prefer to rent instead of buying a home.

Real estate investors can take the cue and invest in REITs than purchase physical properties. **Canadian Apartment Properties** ([TSX:CAR.UN](#)), or CAPREIT, **Morguard North American Residential** ([TSX:MRG.UN](#)) and **InterRent** ([TSX:IIP.UN](#)) are the [top landlords](#) in the residential [sub-sector](#). This year could be the banner year for the three REITs.

### Largest residential REIT

CAPREIT is Canada's largest residential REIT. Its 2.65% dividend yield (\$54.76 per share) should give your [passive income](#) a decent boost. This \$9.51 billion fully internalized growth-oriented REIT provides quality rental housing (Canada and the Netherlands).

The multi-residential portfolio consists of apartment buildings, townhouses and land lease communities. CAPREIT has yet to report its full-year 2021 results, although the numbers in after three quarters indicate another strong year. Operating revenues and net operating income (NOI) increased 5.3% and 6.3% versus the same period in 2020.

CAPREIT's occupancy rate (98.4%) and rent collections (99%) during the period were stable.

Management's ongoing concern is to strengthen occupancies, increase rents on turnover, and reduce bad debts. Expect the REIT to capitalize on the post-pandemic trends and continue with its accretive portfolio growth.

## **\$3.3 billion portfolio**

Morguard North America owns and leases high-quality multi-suite residential properties in Canada and the United States. As of mid-February 2022, this \$1.07 billion REIT has 13,275 residential suites in its portfolio. The combined appraised value of the properties is about \$3.3 billion.

Besides Alberta and Ontario, the rental properties are in Colorado, Florida, Georgia, Illinois, Louisiana, Maryland, North Carolina, and Texas. In 2021, NOI declined 4.5% versus 2020, although net income rose 46.9% year over year to \$245 million.

As of year-end 2021, the average monthly rent in Canada and the U.S. increased 2.3% and 6.4%, respectively, compared with year-end 2020. At \$19.06 per share (+8% year to date), you can partake of the REIT's 3.67% dividend yield.

## **Increasing distributions**

Like CAPREIT and Morguard North America, InterRent is a growth oriented. This \$2.2 billion REIT owns a portfolio of income-producing, multi-residential properties. In the nine months ended September 30, 2021, net income soared 221.5% versus the same period in 2020.

While the dividend yield is modest (2.17%), the distribution has increased by 5% annually in the past eight consecutive years. The real estate stock trades at \$15.74 per share but is down 8.9% year to date. However, market analysts' 12-month average price target is \$19.90, or a 26.4% upside potential.

## **Rent over homeownership**

Residential REITs should be investors' favour in 2022 if Canadians prefer renting over obtaining mortgages at higher rates.

### **CATEGORY**

1. Dividend Stocks
2. Investing

### **TICKERS GLOBAL**

1. TSX:CAR.UN (Canadian Apartment Properties Real Estate Investment Trust)
2. TSX:IIP.UN (InterRent Real Estate Investment Trust)
3. TSX:MRG.UN (Morguard North American Residential Real Estate Investment Trust)

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