Mortgage Rates Will Rise: Buy These 2 REITs

Description

One of the most important duties of the Bank of Canada (BoC)/Canada's Federal Reserve, which acts as the premier monetary regulatory body of the country, is to ensure that inflation in the country remains under control. It's complicated to control, even in a normal economy. If you add in problems, like the pandemic, a real estate bubble, uncertain energy demand-supply cycles, etc., it becomes a daunting task.

The inflation rate in the country has crossed the 5% mark. The last time it happened was almost three decades ago (1991). So, the BoC is employing the most accessible inflation controlling tool it has: interest rates. This has already started to reflect in the interest rates of commercial banks and will inevitably reach mortgage rates.

Higher mortgage rates can pause the real estate market slightly. And even though it may not turn the tide right away, its impact will be felt by most stakeholders (different severity for each), including REITs. The REITs with residential exposure might experience a more drastic impact, while commercial REITs may be sheltered by the worst of it.

A residential REIT

Canadian Apartment Properties REIT (TSX:CAR.UN) is not just a REIT with residential exposure; it's also the country's largest REIT by market cap. The REIT has a commercial wing as well as an international presence, and its portfolio is made up of over 70,000 residential suites, 47% of which are in Ontario alone and about 16% are in the Netherlands.

It's a strong, well-run REIT with a healthy portfolio, but if property prices start going down, or if they stop appreciating at the current pace, it may reflect in the assets of this REIT. And if that causes a dip, you will have a shot at buying this amazing growth-oriented REIT stock at a higher discount than the current one (about 13.6%), and you will also lock in a higher yield than the current 2.6%.

The REIT is currently undervalued, and if its downward momentum carried for a little longer, it would become an even better bargain. But even if the dip isn't hard enough to pump the yield up to your liking, its capital-appreciation potential is reason enough to consider this REIT.

A commercial REIT

The commercial real estate sector, especially its industrial, retail, or office properties segment, might not be affected as much by this hike in the interest rates as the residential sector. And if that's the route you wish to take, **Dream Industrial REIT** (TSX:DIR.UN) is one REIT you should look into. It's a robust growth REIT that offers a five-year CAGR of 21.6%, which is quite enough to double your capital in half a decade.

The true strength of this REIT as an investment is that it also offers a juicy 4.3% yield, and it's currently available at a heavily discounted valuation. This combination of growth and dividends would be even more attractive if you manage to buy it during a dip. But if the lowered interest rates won't affect this market segment, you may not want to wait around for this REIT to get expensive.

Foolish takeaway

The two REITs are a perfect long-term holding right now, and they might become even better choices if the Canadian real estate market sees an end to the bullish phase and enters a new bearish trend, where these REITs are more discounted and offer higher yields.

CATEGORY

1. Dividend Stocks
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adamothman