Are REITs Too Expensive to Buy Right Now?

Description

Real estate investment trusts (REITs) have become popular passive income sources in recent years. The asset class is like dividend stocks that people run to for recurring income streams. REITs are also the next-best alternatives to buying real estate for investment purposes.

REITs in Canada are classified into eight sub-sectors, and each one has its strengths and weaknesses. The real estate stocks could appear expensive or cheap, but prices are always relative. Like in most stocks, meticulous investors follow important valuation metrics.

However, determining the value of a REIT is a bit more challenging. For regular investors who want exposure to the real estate sector, the selection process could be simplified. The global pandemic showed the sensitivity of the sub-sectors to the economic environment.

Sensitive sub-sectors

Sub-sectors like retail/commercial, office, and hospitality saw declines in leasing activities and rental income generation during the pandemic. Lockdowns, social distancing, and the shift to work-from-home affected operations. **RioCan**, a diversified commercial REIT, had to slash its dividends in late December 2020 due to the COVID-induced carnage.

The hotel industry, along with the aviation industry, suffered the most during the pandemic. For example, **American Hotel Income Properties** (TSX:HOT.UN) or AHIP, didn’t have a fighting chance against the deadly coronavirus. The REIT was a dividend beast before the pandemic.

Unfortunately, the sharp declines of the occupancy rates in their premium-branded, select-service hotels in the U.S. forced management to stop dividend payments in Q1 2020. Besides the temporary payout suspension, the share price sank to as low as $1.19 on March 23, 2020.

Fast-forward to 2021, and the REIT showed vastly improved operating fundamentals. In the 12 months ended December 31, 2021, AHIP’s loss went down 82.1% to US$11.86 million versus 2020. In Q4 2021, total revenue and revenue per available room (RevPAR) increased 58.8% and 56.1% versus Q4

2020.

AHIP CEO, Jonathan Korol, said, “We enter 2022 positioned to benefit from an improving backdrop and focused on our primary objective of creating long-term unitholder value.” The REIT should regain investors’ confidence after it announced the return of dividend payments last month. At $4.30 per share, the REIT outperforms the TSX year to date (+14.56% versus +1.16%). The dividend yield is 5.34%.

Thriving REITs

Nexus (TSX:NXR.UN) and **NorthWest Healthcare Properties** rose to prominence due to the e-commerce boom and health crisis, respectively. The former is TSX’s top-performing REIT, while the latter is the only REIT in the cure sector. However, since Nexus is a growth-oriented industrial REIT, it should be the better choice.

Kelly Hanczyk, the CEO of Nexus, said, “2021 was a banner year for Nexus. We successfully accessed the capital markets three times in 2021 to fuel the rapid growth of the REIT.” In 2021, property revenues, net operating income (NOI), and net income rose 36.1%, 42.6%, and 165.5% versus 2020.

Hanczyk adds the $956.94 million pure-play industrial REIT had a strong start to 2022. Management is hopeful that 2022 will be as successful as 2021. Nexus trades at $12.63 per share and pays a 5.11% dividend.

Nature of the REIT

Regular investors don’t need to look into various metrics before investing in REITs. Check the sub-sector to see if it is economically sensitive, recession-resistant, or growth-oriented.

CATEGORY

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2. Investing

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2. TSX:NXR.UN (Nexus Real Estate Investment Trust)

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