2 Top Canadian Real Estate Stocks

Description

Investors who want exposure to real estate but don’t have the time or the funds to buy an income property can find top picks in the TSX real estate sector that offer a shot at solid total returns.

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Brookfield Asset Management

Brookfield Asset Management (TSX:BAM.A)(NYSE:BAM) is a giant in the alternative asset management sector with US$690 billion in assets under management. The company invests money on behalf of clients and charges a fee for the service. Customers include pension funds, wealthy individuals, and institutions. Brookfield also invests its own cash alongside client money in most of the purchases it makes.

The real estate arm of the business has US$251 billion in assets under management that includes holdings in office properties, retail, multifamily, hospitality, and other segments like student housing. The diversification of the assets by sector and geography helps minimize risk.

Brookfield Asset Management has the financial clout and expertise to buy strategic property assets around the globe. Investors in the stock can get exposure to these properties that would otherwise be out of reach.

Brookfield Asset Management trades near $69 per share at the time of writing compared to the 12-month high around $79, so investors have a chance to buy the stock on a decent pullback.

RioCan

RioCan (TSX:REI.UN) is best known as an owner of shopping malls. The company took a beating during the past two years, as lockdowns forced retailers to close for months at a time.

COVID-19 is still present, and there are risks that a new variant could emerge and evade existing immunity built up by vaccines or prior exposure. However, it is unlikely the retail sector will see new restrictions or shutdowns on the scale of what occurred during the worst of the pandemic.

Despite the hardships, RioCan's retail space remains in high demand. The company gets 91% of its rental revenue from Canada's six major markets. It has a committed occupancy rate of nearly 97% and 85% of the revenue comes from tenants that have strong balance sheets. These include grocery stores, pharmacies, and national retail chains.

RioCan is building mixed-use properties to diversify revenue. The buildings offer residential units as well as retail space and are located near key transit links in major cities.

The trust units trade near $25 at the time of writing and offer a 4% yield. RioCan cut the payout from 12 cents to eight cents during the pandemic but recently increased it to 8.5 cents, so the current distribution should be safe.

Risks

Real estate is a debt-heavy business. As a result, rising borrowing costs can put a dent in cash flow available for distributions. In the event that the U.S. Federal Reserve and the Bank of Canada are forced to raise interest rates much higher than expected in their effort to fight rising inflation, companies with large real estate portfolios could fall out of favour with investors.

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Economists broadly expect inflation to return to the 2% range once global supply chain issues start to ease and upcoming rate hikes have their desired impact.

The bottom line

Brookfield Asset Management and RioCan are top-quality companies in the real estate sector. If you only buy one, I would probably make Brookfield Asset Management the first choice. You get exposure to a diverse portfolio of real estate, while the other operations that invest in renewable energy and infrastructure provide a nice hedge.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BN (Brookfield Corporation)
2. TSX:BN (Brookfield)
3. TSX:REI.UN (RioCan Real Estate Investment Trust)

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