Don’t Own a Home Yet? Invest in Housing Through Cheap Canadian REITs Instead

Description

Home prices in Canada are setting new heights, especially after high inflation occurring in oil and gas and basic materials like lumber due partly to supply chain issues. According to wowa.ca, the average price of a Canadian home was sold for $816,720 recently — a jump of 20% year over year! The housing prices are even more ridiculous in hot cities like Vancouver and Toronto. The benchmark price of homes in Metro Vancouver and Toronto were $1,360,500 and $1,299,894, respectively, last month.

Invest in housing without buying a home

If you don’t own a home yet, you don’t need to feel left out. You can participate in the housing market by investing in Canadian REITs. Actually, you’re not just limited to residential real estate. You can allocate a logical percentage of your investment portfolio to real estate. Within the sector, you can spread your capital across various REIT industries and even be diversified internationally.

Besides, many homeowners are house-rich and cash-poor, because so much of their net worth is stuck in the home. Home equity loans aren’t suitable for everyone and might work against homeowners depending on what they’re using the loans for or as interest rates change.

While Canadian housing prices have gone up, Canadian residential REITs have corrected recently. Canadians interested in investing in residential real estate can look for value in these monthly dividend stocks. They could be decent passive-income holdings in your Tax-Free Savings Account.

Here are a couple of Canadian residential REITs that have pulled back.

Canadian residential REIT stocks are cheap

Killam Apartment REIT (TSX:KMP.UN) stock has declined roughly 13% from its high. Last year, the Canadian residential REIT increased funds from operations per unit by 7%. Its same-property net operating income (SPNOI) exceeded its expectation by achieving 5.1%. This year Killam expects steady SPNOI growth of 2-3% and planned acquisitions of at least $150 million, as it continues to expand outside Atlantic Canada.

The Canadian residential REIT also earned its Canadian Dividend Aristocrat status this year, as it has paid an increasing cash distribution since 2017. At $20.96 per unit at writing, it yields about 3.3%. According to Yahoo Finance, across 13 analysts, the general consensus is that the REIT is discounted by approximately 19% based on the 12-month price target.

Canadian Apartment Properties REIT (TSX:CAR.UN), or CAPREIT, also trades at a neat discount. The Canadian residential REIT has fallen about 16% from its high. According to Yahoo Finance, across 15 analysts, the general consensus is that the monthly dividend stock is discounted by 22% based on the 12-month price target. At $52.09 per unit, the stock yields almost 2.8%.

The residential REIT is a leader in the space. Its portfolio consists of apartment buildings, townhouses, and land lease communities in or near major urban centres. Since it owns freehold interests in multi-unit residential properties, it owns buildings and land. (Though, it also owns leasehold and co-ownership rental properties.) The increase in the fair value of its portfolio raises its net asset value (NAV). Last year, its NAV rose 11%, or more than $1 billion, as housing prices increased generally across Canada.

CAPREIT has raised its cash distributions for about a decade. It has the capability to maintain this dividend growth.

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