The 3 Best REIT ETFs to Buy in Canada in 2022

Description

Canada is grappling with 30-year high inflation of 5.7%. The central bank is looking to increase the interest rate at an accelerated pace throughout the year. High-growth tech stocks have lost 50-60% value, and crypto-related stocks remain volatile. The liquidity is drying up. Such an economy has attracted investors to the more conventional form of alternative investing: real estate. REITs are a cost-effective way of investing in real estate.

Why REITs?

REITs, or real estate investment trusts, develop, maintain, lease properties, and share rental income and gains from selling property with investors. They give you regular income and also hedge against inflation.

Some income trusts invest in residential, commercial, retail, hotel, and industrial properties. Some REITs invest in foreign properties and some earn interest on mortgages. Each property is affected by different factors. For instance, residential REITs' prices fell, as the Canadian government discussed a bill to impose a 1% annual tax on Canadian residential properties owned by non-citizens. Retail REITs surged, as shops reopened after the pandemic. You can make the most of all properties by investing in REIT ETFs.

When investing in ETFs, look for the management expense ratio (MER) and its holdings. These can make a noticeable difference in your returns in the long term.

iShares S&P/TSX Capped REIT Index ETF

Founded in October 2002, **iShares S&P/TSX Capped REIT Index ETF** (TSX:XRE) is the oldest REIT ETF. Time is on its side, as it managed to grab some REITs at an attractive price. It has $1.27 billion in assets under management (AUM), with 35.8% in retail REITs, and over 20% each in residential and industrial REITs. XRE has invested in 19 REITs and returned 9.9% since inception. It is slightly lower than the S&P/TSX Capped REIT Index, which returned 10.54%. This difference is probably because of its 0.61% MER.

The ETF's top two holdings are **Canadian Apartment Properties REIT** (13.7%) and **RioCan REIT** (11.2%). Both the REITs are running in the opposite direction this year. That balances out the ETFs total returns and gives your portfolio the cushion to fight inflation. XRE gives you a 3.37% distribution yield.

BMO Equal Weight REITs Index ETF

Founded in May 2010, **BMO Equal Weight REITs Index ETF** (TSX:ZRE) has invested in 23 REITs and tracks the Solactive Equal Weight Canada REIT Index. Unlike XRE, this ETF has invested an equal amount of around 5.09% of its holdings in each REIT, removing any market cap bias. ZRE has $782.87 million in AUM, with around 29% in retail REITs, 23% in residential, and 14% each in industrial and diversified REITs.

ZRE has the same MER as XRE. However, ZRE gives you a more diversified REIT portfolio, as it also has 10% holding in office REITs and another 10% in healthcare REITs. That explains its 3.92% annualized distribution yield. It has returned 10.84% since its inception, underperforming the benchmark index, which returned 11.6%.

Vanguard FTSE Canadian Capped REIT Index ETF

While the above two ETFs have higher exposure to large REITs, **Vanguard FTSE Canadian Capped REIT Index ETF** (TSX:VRE) has exposure to mid- and small REITs. Founded in November 2012, VRE has invested in 18 REITs. Like the above two ETFs, VRE has its largest holdings in retail (22.7%) and industrial (16.9%) REITs, respectively. However, it has lower exposure in residential (14.9%) and higher in office REITs (15.1%) and real estate services (15.5%).

Like the XRE ETF, VRE's top two holdings are CARPEIT and RioCan and track the FTSE Canada All Cap Real Estate Capped 25% Index. It has a distribution yield of 3.09%. The ETF returned 7.64% since inception, lower than its benchmark index return of 8.08%. Despite a lower distribution yield, VRE is attractive because it has the lowest MER of 0.38%.

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2. TSX:XRE (iShares S&P/TSX Capped REIT Index ETF)
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Date
2025/07/22
Date Created
2022/04/18
Author
pujatayal