2 Sold-Off Canadian REITs Due for a Bounce

Description

The REIT space has been quite a choppy ride of late, but there is value for those looking to the space for greater diversification in the face of what could be another round in the ring with Mr. Market. In this piece, we'll have a closer look at two Canadian REITs that I think are the best in their breed. While the following REITs may continue to tumble at the hands of all the macro headwinds, I think that valuations have fallen too far, too fast.

Sure, such negative momentum is enough to have anyone run for the hills into cash, GICs (Guaranteed Investment Certificates), cash equivalents, or even bonds. Still, such assets won't help you get ahead of inflation. While bonds and GICs have seen their rates shoot up modestly from sub-1% levels, they're still unattractive in real terms! Unless you think inflation will be sent back to 2% by a Bank of Canada that seems more willing to see how bad inflation can get, equities and REITs (or risky assets) still seem like the way to go. However, I would not hesitate to purchase some GICs at these levels with excessive cash hoards.

Currently, REITs seem to be in a scary middle ground. They're less choppy than tech stocks in the stock market, but they're still more volatile than they have been historically. Undoubtedly, investors can take advantage of the situation by buying on dips.

Growth REITs stand out to me as intriguing, given many have slipped at the hands of faster-than-expected rate hike predictions. If hikes don't come nearly as fast, I think such REITs could face meaningful upside.

So, without further ado, please consider **InterRent REIT** (TSX:IIP.UN) and **Killam REIT** (TSX:KMP.UN), two well-run residential REITs that don't get the respect they deserve these days.

InterRent REIT

InterRent REIT is has found a lot of luck in acquiring multi-family properties. Indeed, the company acquires at a low price and looks to introduce improvements to management and other areas to be able to command slightly higher rents. The formula has worked for a long period of time because of the capabilities of management.

Though the shares have slipped recently, tumbling around 22% to $14 and change per share, I think the growth REIT is worthy of a pick-up on weakness. The distribution is small at 2.4%, but for a growth REIT, that's pretty good, given you're likely to enjoy capital gains over the course of the next 10 years.

Over the past five years, IIP.UN looks more like a stock than a REIT, surging 85% in the timespan. At these levels, the REIT looks oversold on conditions that are frankly exaggerated.

Killam REIT

Killam REIT is another successful REIT that's fallen on hard times, tumbling around 12% from its high to around $21 per share. Killam is very much an east coast residential real estate play, with a strong presence in the region. The REIT owns many intriguing and affordable properties that shouldn't suffer from much in the way of vacancies, as rates rise.

Like InterRent, Killam has a sensational management team that knows how to create value via M&A. Though it's hard to tell when the pain will end, I think the REIT offers a nice yield at 3.35% alongside slightly less volatility than the TSX Index, with its 0.88 beta.

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2. TSX:KMP.UN (Killam Apartment REIT)

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