2 Great REITs That Won't Stay Cheap Forever

Description

Canadian REITs are in a tough spot right now, with central banks ready to raise the bar on interest rates in an effort to drag inflation down. Higher rates are not good for most firms. However, inflation is arguably the worse of the two, especially given its persistent nature. Indeed, transitory inflation was a luxury that the markets were not given.

With more than a handful of rate hikes on the way, stocks and REITs are bracing for impact. Where the real value lies is if inflation can crumble without as many rate hikes as are currently being anticipated. Thus far, the CPI data has not been promising. In Canada, inflation keeps going higher by the month. It's not a good sign. The Bank of Canada needs to get going if it's serious about putting a stop to all the price increases. Undoubtedly, waiting for the U.S. Federal Reserve to act first may be a mistake, given the Canadian and American economies could not be more different at a time like this.

Personally, I think Canadian REITs have fallen into deep-value territory. Concerns over rates and the economy have been overblown for nearly half a year now. Eventually, investors will be buyers again, but until then, the best bargains are available for the retail investors brave enough to step in amid the negative momentum.

Currently, **First Capital REIT** (TSX:FCR.UN) and **Automotive Properties REIT** (TSX:APR.UN) stand out to me as a great value at current levels. At writing, shares of FCR.UN yield a modest 2.8%, while APR.UN yields 5.8%.

First Capital REIT

First Capital REIT shares are attempting to recover after a steep 23% plunge off its 52-week highs. At $15 and change per share, there's a great deal of value to be had in the Toronto-based REIT that specializes in mixed-use properties in urban areas.

Fellow Fool contributor Daniel Da Costa is a pretty big fan of the REIT, going as far as naming it one of the best long-term stock ideas to buy in the real estate arena. Da Costa acknowledges that the REIT has accumulated more than its fair share of debt over the years, putting it on the receiving end as interest rates finally rise. However, Da Costa noted that plans to sell off certain assets should help improve the state of the balance sheet and shares.

The REIT is on the right track, and rate hike fears seem way overblown here. At 7.3 times trailing earnings, FCR.UN shares are a great value play for those looking for a long-term outperformer.

Automotive Properties REIT

Automotive Properties REIT is down just 7% from its high to just shy of $14 per share. However, it's one of many REITs that did not deserve to be rattled. The top auto dealership REIT has some very long-term leases on its books.

Even if higher rates steer us into a recession, Automotive Properties will be minimally impacted. With a robust AFFO stream and a modest 7.7 times trailing earnings multiple, the mid-cap REIT stands out as one of the better values in the real estate space.

CATEGORY

1. Investing

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1. TSX:APR.UN (Automotive Properties Real Estate Investment Trust)
2. TSX:FCR.UN (First Capital Real Estate Investment Trust)

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