Real Estate Prices Finally Soften: Buy These 2 REITs?

Description

Is the softening of Canada's supercharged housing market for real? The 12% decline in home resales between March and April seems to suggest that the rising interest rate is starting to weigh on home prices. The Bank of Canada will most likely announce the third installment of its rate-hike campaign on June 1, 2022.

Prospective homebuyers hope the market imbalance corrects soon to bring down home prices further. RBC Economics said the severe imbalance is easing. The bank notes that in some markets, the sales-to-new listings ratio reached balanced-market territory last month.

On the stock market, the real estate sector is the fourth worst performer after healthcare, technology, and consumer discretionary. However, if real estate prices continue to moderate, the sector would regain lost ground. Real estate investment trusts (REITs) like **H&R** (TSX:HR.UN) and **Dream Office** (TSX:D.UN) should be back on investors' radars.

Repositioning plan

In Q1 2022, H&R reported declines in rentals from income properties (-24.23%) and net operating income (30.89%) versus Q1 2021. However, net income climbed 508.15% year over year to $970 million. This $3.88 billion REIT owns a high-quality real estate portfolio in North America. Office, industrial, residential, and retail properties comprise the portfolio.

Tom Hofstedter, H&R's CEO, said, "Our strong first-quarter financial results mark a pivotal moment in the continuation of our transformation and the surfacing of the embedded value within our portfolio." He added that the current portfolio today concentrates on higher growth asset classes. H&R has no more shopping centre division and also sold an office campus.

After the changes at the top, Hofstedter said that H&R is ready to execute its repositioning plan. Based on market analysts' forecast, the upside potential in 12 months is 29.65%. This REIT trades at $13.22 per share and pays a 4.16% dividend.

Premier office landlord

Michael Copper, the CEO of Dream Office, said, “Our business has continued to navigate through uncertainties in the economy and recovery from the pandemic with resilience.” The $1.08 billion REIT is the premier office landlord in Toronto. While net rental income in Q1 2022 dropped 1.55% versus Q1 2021, net income increased 415.30% to $52.28 million.

Cooper said that the net income for the quarter includes the $25.9 million net rental income from **Dream Industrial**. Dream Office has investments in the REIT. As of March 31, 2022, the portfolio consists of 29 active properties and one under development.

Management anticipates more employees to return to offices during 2022. H&R’s leasing activity and traffic flow to its properties will materially improve net operating income. Parking revenues should also normalize. If you invest today, the share price is $23.08, while the dividend offer is 4.33%.

More supply and less competition

Real estate prices and housing demand might not be as elevated anymore after the central raises its key interest rate next month. Homebuyers look forward to a balanced market also where inventory or choices are more, but minus the competition or bidding wars.

Meanwhile, REITs are alternatives to buying physical revenue properties. You don’t need substantial cash to invest in H&R and Dream Office to generate rental-like income.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:D.UN (Dream Office Real Estate Investment Trust)
2. TSX:HR.UN (H&R Real Estate Investment Trust)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. cliew
2. kduncombe

Category

1. Dividend Stocks
2. Investing

Date
2025/07/02
Date Created
2022/05/26
Author
cliew