2 High-Quality Real Estate Plays to Buy for High-Yielding Dividends

Description

Real estate investment trusts (REITs) provide Canadian investors a unique take on real estate investing by letting them gain exposure to the industry without the massive cash outlay necessary for buying an investment property. Several high-quality REITs trade on the **TSX**, but the REIT market does not tend to be as heavily influenced by the broader equity market.

However, broader volatility in the economy can also cause sudden declines in REITs. The Canadian housing market has been on a tear for the better part of a decade. Analysts made predictions of a massive housing market crash that never came. Instead, the value of residential properties kept appreciating to record levels.

The Canadian Real Estate Association (CREA) reported that the average price of houses in Canada declined by 6.3% in April, bringing it down to $746,000. The interest rate hikes enacted by the Bank of Canada (BoC) have started showing their impact on reducing borrowing capacity and mitigating activity in the residential real estate market.

The cooldown in housing prices has led to several high-quality REITs declining in valuations on the TSX. Today, I will discuss two top REITs you can consider adding to your portfolio to take advantage of discounted valuations and inflated distribution yields.

SmartCentres REIT

SmartCentres REIT (TSX:SRU.UN) is a $4.16 billion market capitalization REIT specializing in retail real estate assets to generate income. However, the company has ambitious plans to expand from being a strip mall kingpin by diversifying into residential real estate.

The broader pullback and volatility in the stock market led to a decline in its valuation. However, the company boasts many essential retailers among its client base, and it looks well positioned to weather a recession.

SmartCentres REIT trades for $28.89 per share at writing, and it boasts a juicy 6.70% forward annual dividend yield at current levels. Its current levels represent a 13.43% decline from its March 29, 2022, levels, potentially making it an attractive play for inflated dividend yields and capital gains.

Killam Apartment REIT

Killam Apartment REIT (TSX:KMP.UN) is a $2.19 billion market capitalization REIT focused on multi-residential property and manufactured housing communities. Most of its operations are based in Atlantic Canada, and its shares declined significantly in the last few months amid the broader weakness in the market.

Despite the decline, Killam Apartment REIT has reported decent figures in its first quarter for fiscal 2022. Its occupancy remains at 98%, and the company's management expects its leasing volume to remain high in the coming years. Killam Apartment REIT trades for $18.94 per share at writing, and it boasts a 3.70% forward annual dividend yield at its current levels.

Foolish takeaway

Investing in REITs entails a degree of capital risk as with any asset trading on the stock market during volatile environments. A recession and rapidly rising interest rates might have an impact on the adjusted funds from operations for many REITs. However, many of the top REITs might show far greater resilience than others.

Killam Apartment REIT and SmartCentres REIT are two such assets that you could consider adding to your investment portfolio.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:KMP.UN (Killam Apartment REIT)
2. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)

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