2 REITs to Own as Rental Housing Demand Rise

Description

The Bank of Canada will hold its third of seven meetings this year on June 1, 2022. Like in the previous two meetings (March 2 and April 13), people expect the central bank to announce another rate hike. However, the feds might be forceful this time, as consumer prices rose to 6.8% last month.

Homebuyers are nervous, because higher borrowing costs would reduce the size of their mortgages and purchasing budgets. Also, while housing sales declined month on month, home prices remain elevated. Should the next rate hike truly soften the housing market, expect rental housing demand to pick up.

If you want to invest in the sector without buying a physical property, Canadian real estate stocks or real estate investment trusts (REITs) are profitable options. **Canadian Apartment Properties** (TSX:CAR.UN), or CAPREIT, and **InterRent** (TSX:IIP.UN) are standouts, because they are residential REITs.

Alternative to home ownership

CAPREIT boasts a portfolio of high-quality, spacious rental suites, townhomes, and manufactured housing communities. The $8.53 billion REIT had a solid performance in 2021 and the leasing momentum continues in 2022. In the first quarter, operating revenue and net operating income increased 8.4% and 4.4% versus Q1 2021.

Its president and CEO, Mark Kenney, said, “With the pandemic easing, we are seeing a return to near-full occupancies, increasing average monthly rents, and strengthening demand.” He stressed that CAPREIT’s properties are affordable alternatives to the high cost of home ownership.

Kenney also confirmed that CAPREIT benefited from rising demand across Canada’s rental housing market. He noted the 10.2% increase ($142) in monthly rental turnover prices during the quarter. Demand was highest in B.C., Ontario, and Nova Scotia.

According to Kenney, rental rates were falling severely when home prices were surging during the pandemic. Fortunately, the rental market has recovered. CAPREIT's overall portfolio occupancy in Q1 2022 was 98% compared to the 97.3% in the same quarter last year.

With the affordability crisis likely to extend despite declining sales, CAPREIT anticipates high demand for rental units. The real estate stock trades at $48.62 per share and pays a respectable 2.98% dividend.

Strong operating platform

InterRent is growth oriented and focused on acquiring and owning multi-residential properties. The primary strategy of this $1.89 billion REIT is to expand only in markets that exhibits stable market vacancies. In Q1 2022, operating revenues and NOI increased 20.5% and 22.2% versus Q1 2021. The occupancy rate was 95.5% from 91.3% a year ago.

Total suites increased 8.6% year over year to 12,445 (100% owned). Notably, the average rent per suite climbed 6% to $1.404. Management expects its top line growth to outpace inflationary pressure in operating expenses in 2022 once rebates granted during the pandemic normalizes by year-end.

InterRent's four development projects (4,000 suites in the next decade) should also help boost Canada's housing supply. If you invest today, the share price is $13.49, while the dividend offer is 2.54%.

No other option

In 2020 and 2021, Canadians looking to purchase homes had substantial budget rooms because rates were low. However, things have changed because the Feds will implement multiple rate hikes to curb inflation. Since home prices will remain out of reach, there's no other option but to go rental.

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cliew