2 Canadian REITs in Turnaround Mode to Buy While They're Still Cheap

Description

Throughout the first few months of 2022, many real estate stocks have lost value, as investors grow increasingly worried about how higher inflation and higher interest rates may impact their profitability.

With so many REITs trading cheap, this is certainly one of the best times to buy. However, it can also make it harder to find the best deals, because so many REITs appear to be trading at attractive prices.

If you're looking for top Canadian REITs to buy now, here are two that are unbelievably cheap and offer significant potential over the coming years, as they turn around their businesses.

One of the best Canadian REITs to buy and hold for years

Although several REITs are undervalued and look attractive, one of the best Canadian REITs I'd recommend investors look to buy is **First Capital REIT** (TSX:FCR.UN).

First Capital has high-quality operations with tonnes of growth potential, both in the short and long term. You may be wondering why the stock is in turnaround mode if it's such an excellent investment.

The reason First Capital has struggled is that it's had to strengthen its financials. The trust was firing on all cylinders prior to the pandemic and used a tonne of capital to buy back shares in 2019. Unfortunately, that increased the stock's debt load, and when the pandemic hit, it got into a little trouble.

After trimming the dividend, divesting non-core assets, and paying down much of that debt, though, First Capital is now in a much better position. However, despite this progress, the REIT still trades unbelievably cheaply.

Not only can you buy the stock today for just 0.69 times its estimated net asset value (NAV), but it also trades at just 13.3 times its forward funds from operations (FFO) — well below its long-term average of 16.8 times.

If you're looking to add more exposure to real estate, there's no question that First Capital is one of the best Canadian REITs to buy now.

A top Canadian REIT that's been revamping its core operations

In addition to First Capital, another high-potential REIT that's been in turnaround mode and progressing well in recent quarters is **H&R REIT** (TSX:HR.UN).

H&R owns retail, office, industrial and residential properties, with roughly half its assets located in Canada and the other half south of the border. However, while it owns retail and office properties, its turnaround is focused on becoming a REIT that solely owns industrial and residential properties.

Therefore, the REIT has made numerous dispositions over the last 12 months, including a significant spinoff, putting it in a much better position and making it one of the best Canadian REITs to buy now.

In its recent earnings report, the REIT showed just how well it's been performing lately. It updated investors on several growth projects, reported its debt-to-gross book value is just 43.1%, increased its distribution by 5.8%, and even announced that it's already spent $178 million to buy back stock already this year.

Despite its strong execution lately, H&R still trades well undervalued, making it one of the best Canadian REITs to buy now. The stock is trading for just 0.73 times its estimated NAV, making it one of the cheapest and most attractive REITs on the market today.

Therefore, if you're looking to add a top REIT to your portfolio, it's one of the best opportunities in this environment.

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