Top REIT ETFs for Canadian Investors

Description

There aren't too many REIT ETFs in Canada, but the ones that do exist are more than enough to do the job for investors. Undoubtedly, many may be looking to the real estate space as a potential shelter from the insidious impact of inflation. Add recessionary storm clouds that could pass over the market into the equation, and it's clear that REITs are a vital nutrient to any long-term-focused TFSA or RRSP retirement fund.

Despite the added diversification benefits of incorporating a REIT or REIT fund into your portfolio, one should not expect REITs to be a pillar of stability when the market goes through corrections or crashes. REITs can be bountiful through complex and challenging environments, but it's vital to remember that they're not immune from the lousy market swoons.

Those market plunges, where almost every security gets sold, tend to hit the REITs pretty hard. However, these dips are the best times to be a buyer. As I've noted in prior pieces, passive-income investors have a lot to gain by going against the grain in times of turmoil. As REIT shares tumble in value, their yields rise by a proportional amount. If no distribution cut is in the cards, you could score yourself an above-average yield that you'll benefit from for years to come.

Great REITs tend to be incredible buys amid market turmoil

It's not easy to differentiate between the distribution slashers and REITs destined to keep their payouts and promises intact, especially if we don't know how bad the next recession will be, what causes it, and which areas of the market will be affected most.

At this juncture, most think central banks will raise rates until we fall into a recession. That's the consensus. And it's not a good one for the REITs, given many growth-focused REITs could be inclined to take their foot ever so slightly off the gas.

At the same time, rates could retreat once inflation is dealt with. We really can't forecast where rates will be in three years from now. The 10-year note suggests 3% rates is the area to look for. If rates settle lower, markets could be in for a tremendous rally led by rate-sensitive securities, including many growth REITs.

A BMO REIT ETF perfect for Canadians

For beginners, **BMO Equal Weight REITs Index ETF** (TSX:ZRE) is one of the best options on the TSX Index. It's one of my favourite REIT ETFs for Canadians, with its very fair 0.61% MER (management expense ratio — the fee you'll pay to the fund's managers), and the equal weighting could grant more upside in a risk-off scenario that sees inflation coming in lower than expected, which, in turn, could lead to far fewer rate hikes.

Indeed, many smaller-cap REITs are more growth oriented. But not all are. Some smaller REITs, like **CT REIT**, are small in size but far more stable than the REITs that dwarf them in size! I view these small Steady Eddie REITs as must-owns for long-term REIT investors.

With a 4.33% yield and a wide selection of wonderful property plays, the ZRE is a great Canadian REIT ETF to own following its correction.

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