Got $1,000? Invest it in Real Estate

Description

The current market correction provides an incredible opportunity for Canadians to invest excess cash. In the long run, investors want stable income from their investments.

If you got $1,000 lying around, one of the best investments to invest in is real estate, which provides stable income immediately. Investors also expect price appreciation in the long run. Right now, rising interest rates are weighing on real estate valuations, which makes it a good time to start researching for real estate investments.

One of the simplest ways to invest in real estate is through real estate investment trusts (REITs). As a passive investor in REITs, you leave all the management work to the professional teams behind the REITs. Property management and maintenance, mortgage payments, tenant sourcing, etc. are all handled by the REITs.

Invest in a REIT ETF

If you don't want to think or want to be diversified immediately, you might consider a REIT ETF like **iShares S&P/TSX Capped REIT Index ETF** (TSX:XRE). The ETF has declined by more than 19% from its peak so far in this correction.

This REIT ETF provides a distribution yield of about 3.85%. And it is diversified across retail (about 36% of the fund), residential (23%), industrial (20%), office (9%), diversified (8%), and health care (4%) REITs. Notably, its management expense ratio is 0.61%.

If you prefer to pick individual REITs to invest in specific areas or to tailor for higher income, you can start your research with XRE's top holdings. Its top 10 holdings are as follows:

REIT	Percentage of XRE fund	Recent yield
Canadian Apartment Properties REIT	13.6%	3.2%
RioCan REIT	11.0%	5.0%

Granite REIT	9.0%	3.9%
Allied Properties REIT (TSX:AP.UN)	7.6%	5.1%
Choice Properties REIT	6.4%	5.4%
SmartCentres REIT	6.1%	6.8%
H&R REIT	6.0%	4.4%
First Capital REIT	5.7%	2.9%
Dream Industrial REIT	5.4%	5.7%
Summit Industrial REIT	5.2%	3.4%

What's pressuring this Canadian REIT?

Allied Properties REIT is an interesting idea for income. Other than the concern for rising interest rates increasing the borrowing costs for real estate investing, investors are generally also not bullish on the outlook for office real estate.

During the pandemic period, many companies operated by having employees work from home. However, many have also directed employees to return to the office at least for a part of the week as COVID-19 restrictions have loosened.

An undervalued REIT that yields 5.1%

Allied is the preferred partner for office space rentals, as its occupancy is higher than the market's occupancy rate in every city it serves. Notably, in early 2022, the office REIT made a timely equity issuance at $50.30 per unit to pay for 75% of the purchase price to acquire an urban office portfolio of six properties, across Toronto, Vancouver, and Montreal, from Choice Properties for $794 million. This portfolio had an average occupancy rate of 91.3%, which is higher than the REIT's Q1 occupancy rate of 88.3%.

Allied Properties REIT is a Canadian Dividend Aristocrat. Its five-year cash distribution-growth rate is 2.5%. In the Q1 letter to unitholders, the Allied president and CEO Michael Emory, noted that "leasing activity continued to accelerate with average in-place net rent per occupied square foot rising to $25.13, up from the comparable quarter last year by 4%." And it had a weighted average remaining lease term of about 5.5 years. Along with its payout ratio of about 71% this year, these fundamentals should help keep its 5.1% yield safe.

Most importantly, the stock appears to be cheap. At the end of Q1, its net asset value (NAV) was $50.92 per unit, up 5% from a year ago. At $34.18 per unit at writing, it trades at a substantial discount of close to 33% from its NAV.

Its debt also appears manageable. The interest coverage ratio of 3.4 times is solid. Its long-term debt to capital ratio is about 37%. And on a pro forma basis, its net debt to adjusted EBITDA will improve from 10.2 to 9.4 times.

CATEGORY

1. Dividend Stocks

2. Investing

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1. TSX:AP.UN (Allied Properties Real Estate Investment Trust)
2. TSX:XRE (iShares S&P/TSX Capped REIT Index ETF)

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