3 Discounted REITs to Buy for Capital Appreciation

Description

Sector-wide discounts are rare in bull markets but quite common when the TSX is bearish. But an even more interesting phenomenon is the separate recovery timelines. Sector A might reach its depth right when Sector B is in the middle of its recovery period. This ensures that no matter *when* you buy in the bear market, you might find a decent selection of appropriately discounted stocks.

Currently, real estate is one of the sectors that are going downwards. You can buy growth-oriented REITs at a discounted price, and the bonus is a higher yield than the stock usual.

An apartment REIT

Killam Apartment REIT (TSX:KMP.UN) is one of the apartment-focused residential REITs in Canada. It has an impressive $4.7 billion portfolio spread out over seven provinces, and the bulk of it (about 89%) is made up of apartment properties.

The rest is roughly equally divided between commercial properties and mobile home properties. Geographically, most of the portfolio is in Nova Scotia, Ontario, and New Brunswick.

Killam has been a consistent growth stock for a while. In the six years between 2016 and 2021, the stock rose roughly 130% — over 21% of average annual growth. Currently, it's sliding down with the rest of the sector and is available at a hefty 28% discount from its last peak. This has pushed the yield up to 4.11%, and the discount is also reflected in the undervaluation.

Urban workspace and data centres REIT

The Toronto-based **Allied Properties REIT** (TSX:AP.UN) is all about urban workspaces and data centres. The REIT has created a portfolio of 200 properties in seven major cities, though the bulk of the portfolio is in Toronto and Montreal (from a square footage perspective). It focuses heavily on the sustainability aspect of its properties, making it a smart buy from an ESG perspective.

The stock rose about 200% in the decade preceding the 2020 crash and fell 43% from its pre-pandemic peak. This has pushed the valuation down considerably, and the yield, which rarely broke through the “modest” mark, is currently 5.2%.

Even more impressive than its pre-pandemic growth pace was its growth trajectory, which was relatively stable. And if there is any chance that this REIT will take the same path in the next TSX bullish phase, buying it now at the current discounted price would be intelligent.

An office REIT

While it’s in nearly the same vein, **Dream Office REIT** (TSX:D.UN) is a slightly different RIET from Allied Properties. It’s backed by a larger real estate group with a diverse portfolio of properties, making it a bit more “solid” than a standalone REIT. It also has a smaller portfolio, most of which is in Toronto.

Dream Office is currently quite heavily discounted and undervalued. It has a price-to-earnings ratio of 5.4 and is trading at a 46% discount from its pre-pandemic peak. This has turned the yield into a relatively attractive number of 5.1%.

The stock wasn’t a consistent grower, even before the pandemic-driven fall. But its bullish phases since the 2008 crash have been quite strong, and the current fall has most likely prepped the stock for a strong uprising.

Foolish takeaway

Real estate investing in Canada, whether it’s for capital appreciation or income potential, can be done via real estate assets or REITs, the latter being the option accessible to most investors. And at the current discounts, which have pushed the yields higher, you can lock in the best of both worlds (capital appreciation and income) by investing in suitable REITs.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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2. TSX:D.UN (Dream Office Real Estate Investment Trust)
3. TSX:KMP.UN (Killam Apartment REIT)

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