Top REIT to Buy as Interest Rates Rise

Description

In an unprecedented move, the Bank of Canada (BoC) announced a 100-basis-point interest rate hike on July 13. While the announcement of another interest rate hike was always on the cards, economists did not think that BoC would go for anything over a 75-basis-point increase in benchmark rates, aligning with the recent-most interest rate hike by the U.S. Federal Reserve across the border.

The 1% increase follows two consecutive 50-basis-point hikes to bring rampant inflation under control. The inflation rate in the U.S. crossed 9.1% in June, and Canada's inflation rate stands at 7.7%. After the latest increase, the benchmark interest rate in Canada now stands at 2.5%.

The BoC plans to bring inflation down to 2%, and the resilience of inflation rates has forced it to take more aggressive measures by tightening its monetary policies.

There is still a long way to go

BoC's inflation target is 2%, but Canada's official inflation rate is at 7.7%, according to figures in May. Analysts predict that Canada's inflation rates based on June figures will be as high as 8% due to surging gas prices last month. With everything that is going on, reaching the inflation target seems like there is still a long way to go.

Rising inflation and higher interest rates impact the entire economy, and the housing market will continue seeing the brunt of its effects. The Canadian real estate industry has seen activity in the housing market slow down in recent months.

Canadians should expect home prices to decline further due to capital borrowing becoming more expensive. However, higher interest rates might not be bad for the entire real estate sector.

REITs could be an excellent alternative to purchasing real estate assets

Real estate investment trusts (REITs) present a viable alternative to purchasing investment properties to gain exposure to the real estate market. However, not all REITs present good investment opportunities amid the interest rate hikes. Economists suggest considering the cash flow and adjusted funds from operations per unit (AFFOPU) to Canadian investors when looking for ideal REITs to invest in right now.

REITs with the highest AFFOPU have held a track record for delivering the best returns in the industry, not the trusts boasting the most significant net asset value per unit. **InterRent REIT** (TSX:IIP.UN) is one such REIT you can consider adding to your portfolio right now.

The $1.64 billion market capitalization trust specializes in investing in multi-residential properties, and it generates a significant portion of its revenue through rent from tenants under leases, parking, laundry, and other ancillary services. With rental income driving most of its revenue, InterRent REIT could be a viable investment to consider as interest rates keep rising.

When people do not have the borrowing power they need to take out mortgages, they will be forced to rent instead of purchasing houses. Rentals will continue to see greater activity as interest rates increase.

InterRent REIT trades for $11.63 per unit at writing, and it pays its shareholders monthly distributions at a 2.94% forward annual dividend yield. Trading for a trailing price-to-earnings multiple of 4.69, boasting high long-term growth, and down by 31.35% year to date, it could be an excellent investment to consider.

Foolish takeaway

Higher interest rates as the price of virtually everything keeps rising have put a lot of pressure on every Canadian. However, there are ways for investors to use the current situation to their advantage. Allocating a portion of your capital to assets that can benefit from the current situation could let you protect and grow your investment capital.

InterRent REIT stands to benefit from a surge in rental real estate activity. It could be an excellent addition to your self-directed portfolio, especially at such discounted valuations.

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1. Dividend Stocks
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