2 Smart Real Estate Stocks to Buy in August

Description

Real estate investors in Canada might lose or incur higher debt load on their investment properties as interest rates rise in 2022. According to **Royal Bank of Canada** economist Robert Hogue, the country's housing market is heading toward a "historic" downturn that will be bigger than any in the last four decades.

Direct ownership might not be a good idea today due to steep mortgage costs and dropping prices. David Rosenberg, an economist, said, "Investors in residential real estate are typically what you would call weak hands." He further said that forced selling by investors could push prices down as much as 40%.

Rosenberg added, "Bubbles burst when interest rates go in the other direction." Mortgage rates will move in lockstep with the Bank of Canada's rate-hike campaign. After four increases beginning in March this year, the central bank's policy rate is now 2.5% from a low of 0.25% in February.

The record-low interest rate era is over, folks. If you're borrowing the down payment or obtaining a mortgage to acquire a new property, consider the cost. A central bank research showed investors could have a debt load that is 10 times their income. Instead of purchasing an investment property, investors can shift to real estate investment trusts (REITs) instead.

Growth oriented

PROREIT (TSX:PRV.UN) trades at only $6.43 per share but pays an ultra-high 7% dividend. A $51,500 investment will generate $3,605 ($300 per month) in passive income. The $379.6 million REIT is growth oriented and owns a portfolio of high-quality commercial properties, with a strong focus on the industrial sub-sector.

Currently, PROREIT is present in 10 provinces but with a higher concentration in central and eastern Canada. In terms of base rent by asset class, industrial properties comprise 65.4% of the total portfolio (120 properties). Retail (24.8%) and office (9.9%) properties round up the rest. As of March 31, 2022. the occupancy rate is 98.5%.

In Q1 2022, property revenue and net operating income (NOI) increased 39.9% and 39.5% versus Q1 2021. Notably, net income and comprehensive income rose 2,747.1% year over year to $46.5 million. The average weighted average lease term is 4.6 years.

Urban intensification

Allied Properties (TSX:AP.UN) owns and operates urban workspaces in Canada's major cities and network-dense urban data centre (UDC) space in Toronto. The $4.37 billion REIT is at the front and centre of urban intensification. By anchoring its investments and operating focus on underutilized lands, Allied captures and creates value for its unitholders.

The portfolio consists of traditional technology, advertising, media, information (TAMI) workspaces in a mix of new and historical buildings. According to its president and CEO Michael Emory, Allied's leasing activity continued to accelerate in Q2 2022. In the three months ended June 30, 2022, rental revenue and net income rose 11.4% and 1.5%, respectively, versus Q2 2021.

If you invest today, the real estate stock trades at $34.17 per share and pays a 5.12% dividend.

Excellent alternatives

REITs are excellent alternatives to direct ownership. Since these institutional landlords pay dividends, you'll receive rental-like income. More importantly, the cash outlay is lower, and you do away with the upkeep or maintenance of a physical property.

CATEGORY

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