Real Estate Investing in Stocks: Do You Seek Income or Growth?

Description

When investing in real estate, many Canadian investors may first think of its income generation potential. A Canadian real estate investment trust (REIT) ETF, **iShares S&P/TSX Capped REIT Index ETF**, yields 3.77% at writing. This is income that's 24% higher than the yield currently provided by the Canadian stock market using **iShares S&P/TSX 60 Index ETF** as a proxy.

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REITs for income

Canadian investors commonly consider real estate investment trusts (REITs) for current income. One of iShares S&P/TSX Capped REIT Index's highest-yielding holdings is **NorthWest Healthcare Properties REIT** (TSX:NWH.UN). The global healthcare REIT is positioned to grow, as its tentacles stretch across eight countries, including geographies such as Canada, Brazil, Europe, the United Kingdom, Australia, and New Zealand. It generates rental income from hospitals, other healthcare facilities, and medical office buildings.

Its diversified real estate portfolio is defensive, maintaining a high occupancy of about 97%, across more than 2,100 tenants. Additionally, approximately 82% of its rents are indexed to inflation, which is critical in today's high inflationary environment. Moreover, it has a weighted average lease expiry of 14 years. Combined, it means the REIT's cash flows are high quality.

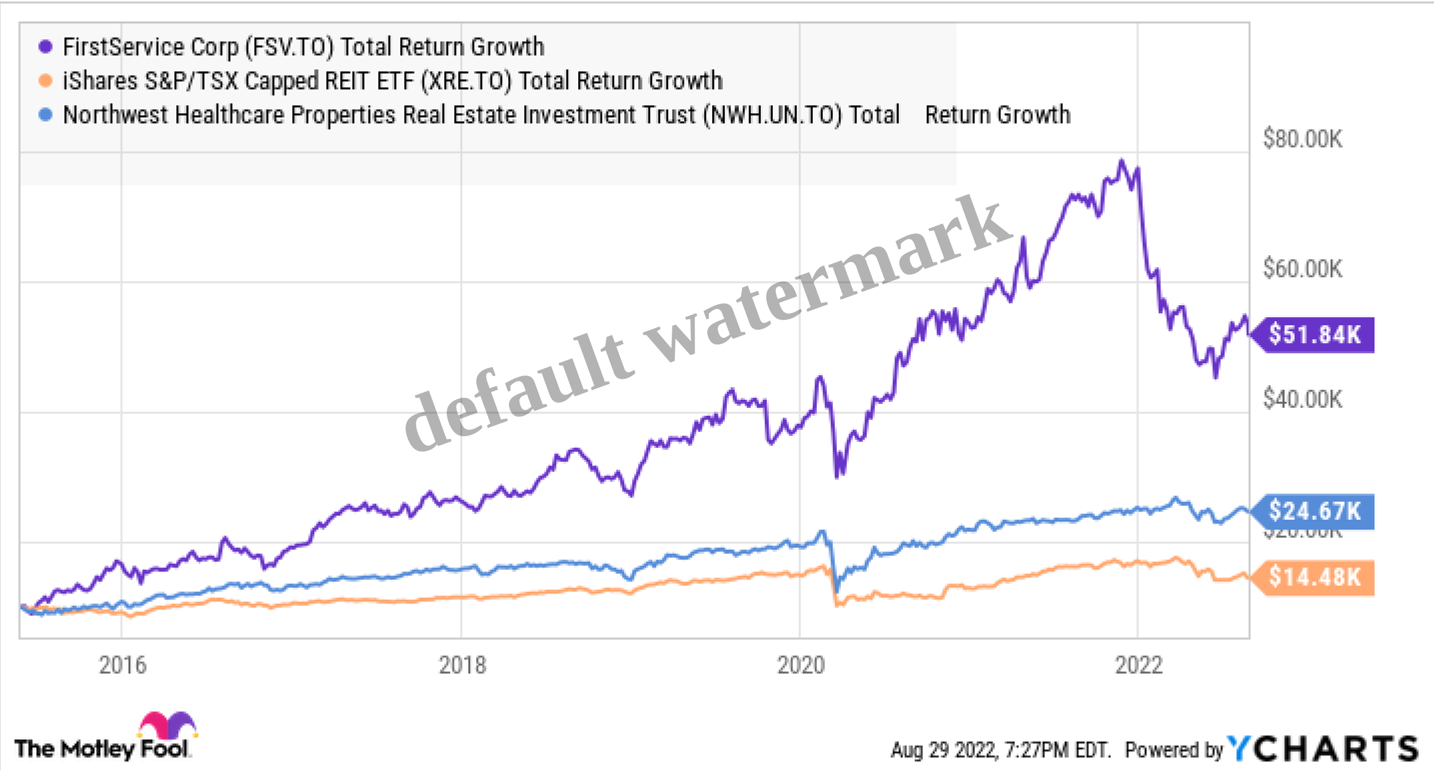
The healthcare REIT yields over 6.2%. This yield is relatively high versus what the industry offers. Investors can therefore assume that most returns in a NWH.UN stock investment will likely come from its monthly cash distribution. At $12.82 per unit, the analyst consensus 12-month price target represents near-term upside potential of 13%. So, investors who need passive income could consider buying some units at current levels. If you prefer more of a discount, see if the stock will fall to about $12 over the next six to 12 months.

By building a position in your Tax-Free Savings Account, you can earn tax-free monthly income!

Real estate stocks for growth

Some real estate stocks are better for growth. For example, investors would have missed **FirstService** (TSX:FSV)(NASDAQ:FSV) if they have their eyes set for income, because the real estate stock only yields about 0.6%. However, interestingly, it has outperformed the sector. Moreover, it's a Canadian Dividend Aristocrat with an above-average five-year dividend-growth rate of 10.7%.

Companies that are able to grow at a high rate consistently ultimately lead to greater total returns primarily from price appreciation. Indeed, of the three securities shown below, FirstService have indeed achieved the highest total return of almost 17.9% annually in the last 10 years. An initial investment of $10,000 transformed to $51,840 in the period.



XRE, NWH.UN, and FSV Total Return Level data by YCharts

FirstService compounded its revenue at a compound annual growth rate of 19% in the past three years. Its adjusted EBITDA (earnings before interest, taxes, depreciation, and amortization), a cash flow proxy, rose at a similar rate in the period, while its adjusted earnings per share increased by over 20% per year.

FirstService is North America's largest provider of residential property management services. It also provides essential property services to residential and commercial customers through franchise systems and company-owned operations. The company enjoys growth organically and from acquisitions. From 2015 to 2021, its annual average organic growth was 7%.

The growth stock’s correction of about 36% from its 52-week high could be a fabulous buy. Currently, analysts think the real estate stock can climb more than 16% over the next 12 months. Longer-term investments can be even more lucrative!

CATEGORY

1. Investing
2. Stocks for Beginners

TICKERS GLOBAL

1. NASDAQ:FSV (FirstService Corporation)
2. TSX:FSV (FirstService Corporation)
3. TSX:NWH.UN (NorthWest Healthcare Properties Real Estate Investment Trust)

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