Worried About a Housing-Induced Recession? Buy These 2 TSX REITs

Description

Buying properties for investment purposes might not be a good idea right now. Due to the ongoing correction, the real estate market in Fall 2022 won't be robust compared to recent years. Demand, sales, and prices are falling due to multiple rate hikes by the Bank of Canada.

Economists fear that more rate hikes before year's end could lead to a housing-induced recession. On the investment front, market analysts worry about the impact of current events on real estate investment trusts (REITs). However, two **TSX** REITs could survive a potential downturn and thrive moving forward.

Capitalizing on a secular trend

Allied Properties (TSX:AP.UN) is a unique option for investors because it capitalizes on demographic and technological changes in the commercial real estate industry. Urban intensification, in particular, is a dominant secular trend. It aims to be the leading owner, manager, and developer of urban workspaces in Canada's major cities and Toronto's network-dense urban data centres (UDCs).

The $3.97 billion REIT has over 200 distinctive urban properties. Its President and CEO, Michael Emory, said the impact of rising interest rates and inflation on operations and development completions have been negligible thus far in 2022. Management intends to grow the business, not shrink it, despite the macroeconomic uncertainty.

In Q2 2022, rental revenue grew 11.35% to $154.41 million versus Q2 2021, while net income increased 1.54% year-over-year to $100 million. Notably, rent growth on renewing space climbed 5.7% from a year ago. As of June 30, 2022, the occupied area of the total portfolio is 89.5%, and the average remaining lease term is 5.5 years.

Allied Properties foresees commercial real estate as an integral part of a much larger infrastructure ecosystem. As a city builder, the REIT's primary strategy is to consolidate and intensify distinctive urban workspace and network-dense UDCs in Canada's major cities. If you invest today ($31.09 per share), the real estate stock pays an attractive 5.5% dividend.

Strengthening market position

RioCan (TSX:REI.UN) is primarily retail-focused, but the tenant mix is evolving to be essential, resilient, and synergistic. Management said the team is forward-looking, anticipates trends, and adapts its property portfolio to strengthen its market position. Thus, there's been an increase in mixed-use properties in its portfolio.

The $6.16 billion REIT has 202 properties (retail, residential, and mixed-use) in six major markets in Canada. In the first half of 2022, net income fell 5.35% year-over-year, although rental revenue (4.86%) and net operating income (1.82%) had positive gains. Other encouraging signs after Q2 2022 include the 97.2% committed occupancy rate and the 93.3% retention ratio that exceeded pre-pandemic levels.

Another important component of RioCan's long-term growth strategy is its development program. The projects it will undertake are a mix of urban intensification, greenfield development, and expansion & development. As of this writing, the share price is $19.94, while the dividend yield is a healthy 5.03%.

Monthly dividends

Allied Properties is well-positioned for the changing business environment, while RioCan is undergoing redevelopment to create and enhance shareholder value. The recurring monthly dividends from either REIT can take the place of rental income from an investment property, with much less risk.

CATEGORY

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