



2 Residential REITs that are Unbelievably Cheap

Description

As markets have been selling off all year, stocks from various industries have exhibited varying levels of performance. Some of the worst impacted stocks this year have been REITs, which have lost tonnes of value and become extremely cheap as interest rates have been rising.

This selloff is creating significant value for investors who have the patience and discipline to buy today and hold for the [long run](#). While the price of REITs may struggle in the near term, their operations should continue to run smoothly and see little impact from a recession.

Furthermore, because many of these REITs have robust balance sheets and will continue generating strong cash flows, they should continue to offer a safe yield.

So, if you're looking to buy the dip as stocks continue to sell off, here are two residential REITs that are unbelievably cheap.

One of the best REITs to buy for growth is now extremely cheap

If you're a long-term investor looking to buy quality REITs for as cheap as possible, I'd recommend a stock like **InterRent REIT** ([TSX:IIP.UN](#)).

InterRent has been rapidly growing its business for years. It has a lower yield and offers less of a distribution than most residential REITs, but it uses more capital to invest in growth and ultimately earns significant returns for investors.

For example, in the five-year period from 2016 to the end of 2021, it grew investors' capital at a [compound annual growth rate](#) of more than 18%, higher than all its major residential REIT competitors.

Furthermore, it's one of the biggest underperformers this year, making it extremely cheap and one of the best REITs you can buy now.

At the start of the year, InterRent traded at 1.05 times its estimated net asset value (NAV). Today it

trades at just 0.7 times its estimated NAV. In addition, over the past five years, it's had an average forward price-to-adjusted-funds-from-operations (AFFO) ratio of roughly 31.1 times. Today the REIT trades at a forward price to AFFO ratio of just 22.7 times.

Therefore, while many residential REITs have become cheap, InterRent is undoubtedly one of the best to buy.

A top REIT offering exposure to U.S. markets

Another high-quality REIT to buy that's become ultra-cheap throughout 2022 is **Morguard North American Residential REIT** ([TSX:MRG.UN](#)).

Morguard is especially attractive due to the significant diversification it offers, with properties in Canada and also spread out across the U.S. This diversification is key for reducing risk and offering more potential for growth.

Already this year, its U.S. portfolio has significantly outperformed its assets in Canada, which is particularly important as operating costs increase due to inflation. And as the REIT's price has continued to decline, Morguard has become more attractive.

Just like InterRent, Morguard is now trading well below where it started the year, currently at just 0.5 times its estimated NAV. In addition, the stock trades at a forward price to AFFO ratio of just 12.9 times, below its five-year average of 16.4 times.

Therefore, while this high-potential and well-diversified real estate stock is still cheap, it's certainly one of the best REITs to buy now.

CATEGORY

1. Investing

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1. TSX:IIP.UN (InterRent Real Estate Investment Trust)
2. TSX:MRG.UN (Morguard North American Residential Real Estate Investment Trust)

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