Real Estate Investing 2022: Earn Cash With Little Capital From REITs

Description

The sky-high prices in Canada's real estate market are cooling due to the tightening monetary policy of the central bank. Rising interest rates have likewise discouraged real estate investors from purchasing properties. According to Statistics Canada, real estate trends are changing, with rental rates rising fast and homeownership declining.

From an investment perspective, real estate investment trusts (REITs) in the residential/apartment sub-sector should benefit from the emerging trend. If you're taking positions in REITs today, **Canadian Apartment Properties** (TSX:CAR.UN), or CAPREIT, and **Killam Apartment** (TSX:KMP.UN) are the logical choices.

Quality rental housing

CAPREIT owns multi-unit residential properties, including apartment buildings, townhouses, and land lease communities across Canada. The objective of this prominent landlord is to provide investors with long-term, stable, and predictable monthly cash distributions. In the REIT sector, distributions are the equivalent of dividends from stocks.

The $7.47 billion REIT offers quality rental housing in Canada's urban and suburban markets. Its president and chief executive officer (CEO) Mark Kenney, believes that the REIT is positioned for long-term growth. Besides apartments, CAPREIT focuses on manufactured housing communities (MHCs) as well. The markets in the former are large and growing, while the latter has a low-risk profile.

CAPREIT relies on strong fundamentals for revenue growth in the years to come. Among the contributing factors are increasing immigration, growing seniors' market, and reversal of household consolidation. So far, in 2022, occupancies remain high. As of June 30, 2022, the occupancy rate is 98.2%, while monthly rents on lease renewals increased 1.3% year over year.

Notably, net operating income (NOI) increased nearly 7% to $319.26 million versus the same period in 2021. CAPREIT trades at $42.77 per share and pays a 3.45% dividend. A $52,200 investment will generate $150.08 in monthly passive income.

Resilient portfolio

The portfolio of Killam, a growth-oriented REIT, consists of apartments and MHCs. Despite inflationary headwinds, revenue growth this year is superb. In the second quarter (Q2) 2022, property revenue and NOI increased by 15.5% and 14.2% versus Q2 2021.

Its president and CEO Philip Fraser said, “Killam delivered strong and resilient operating results in the second quarter. Revenue growth remains robust, up 5.2% for our same-property portfolio.”

Fraser added that he expects three recently completed development projects to contribute positively to earnings growth in 2022 and 2023. In the same quarter alone, Killam invested $43.4 million in active development projects. Management’s strategy to enhance value and profitability hasn’t changed.

The REIT’s priorities are to increase earnings from existing operations, expand the portfolio, diversify geographically through accretive acquisitions, and develop high-quality properties in its core markets. The portfolio expansion will focus more on newer properties.

This $1.85 billion REIT pays an attractive 4.37% dividend and trades at only $15.98 per share. Killam also offers a distribution-reinvestment plan (DRIP), where investors can reinvest the cash distributions on each payment date to acquire additional shares.

Indirect ownership

Owning investment properties or rental real estate is an excellent way to generate income, but the current market condition isn’t conducive to purchasing one. However, earning cash or passive income through indirect ownership is possible with CAPREIT and Killam Apartment.

CATEGORY

1. Dividend Stocks
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