Real estate bargain picks for yield-hungry investors

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Warehouse giant Prologis is benefiting from the growth in online shopping, which has gained huge traction during the COVID-19 pandemic. Online retailer Amazon.com Inc. is among its more than 5,000 customers. (AP Photo/Ross D. Franklin)

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Yield-seeking investors may want to hunt for bargains among real estate investments hit hard during the recent stock market collapse.

Given falling interest rates, the robust dividend yields that some real estate investment trusts (REITs) and stocks offer have become more attractive. That's in addition to the long-term growth potential of many names.

That doesn't mean there aren't risks. However, some industrial and residential REITs/stocks have stronger fundamentals to weather the COVID-19 pandemic and oil price crash. Economic stimulus measures that governments are implementing will also help.

We asked three fund managers for their top real estate picks.

LEE GOLDMAN, SENIOR PORTFOLIO MANAGER, SIGNATURE GLOBAL ASSET MANAGEMENT, A DIVISION OF CI INVESTMENTS INC.

His fund: CI First Asset Canadian REIT ETF (RIT-T)

The pick: Dream Industrial REIT (DIR-UN-T)

52-week range: $6.89 to $14.31 a unit

Forward dividend and yield: 70 cents a unit (7.8 per cent)

Dream Industrial REIT is a compelling investment despite an economic slowdown because it has an e-commerce tailwind that has grown stronger during the pandemic, Mr. Goldman says. Seventy per cent of the Toronto-based REIT's rentable square footage is in Canada, with almost half in Ontario and Quebec; the rest is in the U.S. and European markets. Demand for industrial real estate is strong in Canada, where the vacancy rate is 3 per cent compared with 5 per cent or 6 per cent historically in a balanced market, he adds. The REIT, he says, also trades at a significant discount to consensus net asset value (NAV) of $12 a unit. Although an economic recession is a risk, the REIT is helped by having a diverse portfolio of tenants with the top 10 only representing about 18 per cent of its rent base.

The pick: European Residential REIT (ERE-UN-X)

52-week range: $2.81 to $5.37 a unit

Forward dividend and yield: 16 cents a unit (4.5 per cent)

European Residential REIT benefits from pursuing an acquisition strategy in the Netherlands, where the fragmented market is "ripe for consolidation," Mr. Goldman says. The Toronto-based REIT, which can tap into Europe's lower mortgage rates, more than doubled its apartment suites to more than 5,600 last year in the Dutch market, which has less stringent rent controls than in Canada. This REIT, formerly known as European Commercial REIT, is two-thirds owned and managed by publicly listed Canadian Apartment Properties REIT (CAR-UN-T). European Residential REIT now trades attractively below consensus NAV of about $4.75 a unit, he says. Although recent layoffs caused by the pandemic is a risk, the Dutch government will subsidize up to 90 per cent of employee wages temporarily.

JEFFREY OLIN, CHIEF EXECUTIVE AND PORTFOLIO MANAGER, VISION CAPITAL CORP.

His fund: Vision Opportunity Fund LP

The pick: BSR REIT $US (HOM-U-T) / BSR REIT $CDN (HOM-UN-T)

52-week range: US$7.51 to US$13.35 a unit

Forward dividend and yield: 50 US cents a unit (5.6 per cent)

The appeal of this Canadian-listed REIT is that it owns apartments in the U.S. Sunbelt, which is known for its high population and job growth, Mr. Olin says. Little Rock, Ark.-based BSR REIT, which is managed internally, has a strong team and two insiders with a 46-per-cent stake, so they're not going to dilute investors for growth, he adds. Other insiders have also bought units recently. The REIT now trades at a steep discount to consensus NAV, in the range of US$14 to US$18 a unit – the latter number is based on a recent major apartment sale that overlaps its region, he says. A recession is a risk, but BSR is more defensive as it targets the Class B market in which monthly rent averages US$942, he says. The U.S. stimulus package also provides lower-income earners with a one-time payment of US$1,200 and US$2,400 for couples.

The pick: Tricon Capital Group Inc. (TCN-T)

52-week range: $5.45 to $12.11 a unit

Forward annual dividend and yield: 28 cents a unit (4.3 per cent)

Shares of this diversified North American residential real estate company are attractive because they trade at a steep discount to consensus NAV of about $13.70 a unit, Mr. Olin says. Toronto-based Tricon owns mainly single-family rental homes and apartments in the fast-growing U.S. Sunbelt; develops high-rise apartments in Toronto; and is involved in land sales and home-building. It has strong management, which has been able to achieve rent growth well above inflation, he says. While Tricon increased its debt after an acquisition last year, that should be reduced as it sells a stake in some buildings to investors, he adds. An oversupply of rentals can be a risk, but it isn't a concern in its affordable single-family home niche in which there are chronic shortages.

MICHELLE WEARING, ASSOCIATE PORTFOLIO MANAGER, STARLIGHT INVESTMENTS CAPITAL LP

Her fund: Starlight Global Real Estate Fund (SCGR-NE)

The pick: Prologis Inc. (PLD-N)

52-week range: US$59.82 to US$99.79 a share

Forward dividend and yield: US$2.32 a share (2.8 per cent)

Warehouse giant Prologis benefits from the growth in online shopping, which has gained huge traction during the pandemic, Ms. Wearing says. The San Francisco-based global leader in logistics real estate has 964-million square feet of distribution space in 19 countries. Online retailer Amazon.com Inc. is among its more than 5,000 customers. Prologis has a strong balance sheet with more than US$5-billion of liquidity to finance its own development or make acquisitions, she says. Last year, it bought Liberty Property Trust. Prologis trades at a discount to consensus NAV of about US$80 a share, but that figure doesn't account for its 27-per-cent interest in its funds business, she says. Prologis is not immune to an economic slowdown, but should weather it better than the 2008 recession.

The pick: Americold Realty Trust (COLD-N)

52-week range: US$23.30 to US$40.42 a share

Forward dividend and yield: 80 US cents a share (2.3 per cent)

Americold is unique because it's the only publicly listed refrigerated warehouse REIT and a key player in the food-supply chain, Ms. Wearing says. The Atlanta-based industrial REIT develops temperature-controlled warehouses and has also grown by acquisition. Its stock took a hit in February after a US$600-million project in Australia was cancelled, but Ms. Wearing says she "wouldn't be surprised if it comes back later." Unlike most REITs collecting a rent cheque, Americold is also an operating business, so its stock should trade at a premium to NAV, she says. Consensus NAV is about US$31 a share, but it doesn't include future earnings growth, which should be about 10 per cent next year, she says. It's not immune to a recession but is more defensive because people still have to eat.