3 Top REITs to Recession-Proof Your Portfolio

Description

The latest rate cut by the Fed, near historically low interest rates, and growing fears of a recession have sparked considerable interest in high-yield real estate investment trusts (REITs). It is easy to understand why REITs are garnering considerable attention, not only do they pay inflation-beating distributions, but they are resilient to economic downturns because they invest in property, which is a hard asset.

REITs are obliged to pay out nearly all their net income if they are to retain their favourable tax status, meaning that they are an excellent investment for those investors seeking to build a sustainable recurring passive-income stream. With a global recession looming, the combination of low volatility, resilience to economic downturns, and regular income makes REITs an attractive investment to weather-proof any portfolio.

Let's take a closer look at three high-yielding REITs that are ideal investments to ride out the looming economic slump and build a sustainable, recurring passive-income stream.

Globally diversified portfolio

Brookfield Property Partners (TSX:BPY.UN)(NASDAQ:BPY) owns a diversified commercial property portfolio, which includes several global marque addresses, including Brookfield Place in New York and London's Principal Place.

Its portfolio is primarily composed of office and retail properties, which, because of their status, have high occupancy rates and are relatively immune to economic downturns, making Brookfield Property an ideal REIT to hedge against a recession.

Brookfield Property, while heavily levered, can access cost effective capital through its relationship with **Brookfield Asset Management** and is focused on strengthening its balance sheet. The REIT is also focused on maximizing the value of its portfolio of properties through a combination of capital recycling and developing existing properties.

Brookfield Property is trading at around a 30% discount to its net asset value (NAV), making now the time to buy, which will also allow you to lock in a juicy 7% yield.

Sector diversified REIT

Another attractive diversified REIT is **Artis Real Estate Investment Trust** (TSX:AX.UN), which owns 229 office, retail, and industrial properties across the U.S. and Canada. It has a beta of 0.59, indicating that it experiences low volatility and is significantly less volatile than the broader market, making it an appealing hedge against a market correction.

Artis generates 52% of its net operating income (NOI) from office properties, 28% from its industrial real estate, and the remaining 20% from its retail assets. The REIT is focused on restructuring its business to reduce its exposure to retail, thereby reducing the impact of the retail apocalypse, and bolster its portfolio of industrial real estate, allowing it to benefit from greater demand for light industrial properties.

That will give Artis's earnings a solid boost, helping to lift its stock, while reducing its exposure to retail properties, which are the most vulnerable to an economic downturn.

Artis has a well-laddered lease expiration schedule and solid balance sheet. It finished the second quarter 2019 with debt to gross book value of 52% and 8.8 times EBITDA, which are both below the recommended thresh holds.

The REIT is trading at a 19% discount to its NAV, highlighting the considerable upside available, and the strategy being implemented by the REIT will unlock value for unitholders and boost its market value. While investors wait for Artis stock to appreciate, they will be rewarded by its sustainable distribution yielding 4%.

Diversified healthcare portfolio

Northwest Healthcare Properties (TSX:NWH.UN) is another REIT which experiences low volatility and is relatively immune to a downturn in the economy. It owns a globally diversified portfolio of healthcare properties in Canada, Australia, Brazil, Germany, and the Netherlands. This lowers Northwest's dependence on any single market, reducing its vulnerability to an economic downturn.

The demand for healthcare is relatively inelastic, which, in combination with the contracted nature of Northwest's revenues, makes its earnings highly dependable. Northwest's earnings will continue growing, even in the event of a recession, because it recently closed the $1.2 billion acquisition of Healthscope, Australia's second-largest hospital operator. After the completion of that deal, Northwest now earns 59% of its NOI in Australia, 17% from Canada, 14% in Brazil, and the remainder from Europe.

Patient investors will be rewarded by Northwest's sustainable distribution yielding a very juicy 7% while they wait for its stock to appreciate.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:AX.UN (Artis Real Estate Investment Trust)
2. TSX:BPY.UN (Brookfield Property Partners)
3. TSX:NWH.UN (NorthWest Healthcare Properties Real Estate Investment Trust)

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