For Defensive Upside and Rich Yields, Buy “Safe” REITs

Description

With the next few months likely to be dominated by ongoing trade talks, a focus on monetary policy, and the global economic landscape, North American stock markets are yet to escape the uncertainty that marred much of 2019 and has left deep scars in more than a few stock portfolios.

But while appetite for risk is still on a long road to recovery, moderate capital growth and rich yields can nevertheless be found. For a mix of defensive qualities, share price appreciation, and tasty dividends, investors adding to a basket of rewarding and relatively low-risk assets may want to reconsider real estate.

One of the best real estate investment trusts (REITs) available on the TSX is **Brookfield Property Partners** (TSX:BPY.UN)(NASDAQ:BPY). Combining good value for money relative to the real estate space and a rich 7.37% yield, Brookfield Property Partners is a buy for the long-term, low-risk income investor. It also has a REIT option focused on malls, restaurants, and parking that pays a 7.25% yield.

Low-risk investors looking for diversity should be reassured by Brookfield Property Partners’s spread of geographical presence, with sites beyond North America in Oceania, Asia, South America, and Europe. Its mix of property types adds further diversity, with commercial, industrial, and residential assets covered by its portfolio. Investors seeking stable cash flow generation have a strong long-range play here.

Brookfield Property Partners has seen steady dividend growth in the last five years with around 4% annual increases year on year. In terms of safety, income investors have a reassuring stock here that can grow their wealth with little maintenance over the long term. Over the next five years, the target rate of increase is between 5% and 7%. The stock is still undervalued, making it a play for capital gains as well.

Canadian Apartment Properties REIT (TSX:CAR.UN) is another way to go for the same mix of safety and income. Sourcing much of its revenue from top tier-rental properties in Toronto and Montreal, CAPREIT is a streamlined option for a pure play on luxury urban leasing.

Lower interest rates have meant that REITs were a popular choice in 2019, and if the trend towards lower rates continues into 2020, then this should hold. The consensus outlook for interest rates in the new year is generally a holding pattern, with no sudden moves. Investors should therefore expect gradual capital appreciation, with the logical conclusion that it may be better to get in sooner than later.

With a 5.58% yield, CAPREIT packs income and value with the classic safety of an apartment investment trust. Focusing on the upper tier of the accommodation demographic, CAPREIT buys and leases properties, allowing investors to act as low-exposure landlords with less of the stress and risk of a brick-and-mortar real estate purchase.

The bottom line

REITs are a popular choice for income investors seeking meaty yields and make solid additions to long-range portfolios. Several threats to REITs remain, though, including the possibility of increased interest rates in 2020 — though this could lead to richer dividend yields through lowered share prices — and the chance of a market downturn leaning on rentals and bankruptcies.

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