Retirees: Supplement Your CPP Pension With This Top High-Income REIT

Description

After the coronavirus crash, many Canadian retirees found themselves between a rock and a hard place. A considerable number of those seemingly reliable high-income REITs have imploded, interest rates have fallen to rock bottom (near 0%), and some of the bluest of blue chips remain under a considerable amount of pressure.

Some of Canada's top "Dividend Darlings" such as **Suncor Energy** have suffered from a dividend reduction amid this crisis, and even the "unshakeable" Big Six Canadian banks have struggled to regain the ground lost in February and March.

With interest rates likely to remain near zero for the long haul, many retirees need to look past bond funds, which are now the most unrewarding they've been in recent memory, as they look to supplement the modest amount provided by CPP pension payments. With now negligible amounts of interest being accumulated in those "high-interest" savings accounts, retirees are being forced into a spot where they're either going to need to take on more risk (with investments in non-risk-free assets such as equities or REITs) or settle with those meagre sub-2% returns provided by the safest of risk-free assets.

The opportunity costs of sticking with risk-free assets have arguably never been this high.

Why retirees ought to look to REITs while they're cheap

REITs, as a whole, have been battered in recent months. There's no question that it now seems much riskier to put money to work in the asset class. Office REITs look toxic, as workforces stay at home amid the pandemic, retail and residential REITs are also looking rancid, as tenants struggle to make rent after the profound disruption caused by coronavirus-induced shutdowns.

As uninvestable as REITs may seem after the recent damage done to their shares, they're actually far less risky given the wider margin of safety that now exists in some of the more battered REITs out there. Some of the REITs, including those in the most-affected real estate sub-industries are oversold beyond proportion and look to be compelling buys for retirees who want to get more for less.

Of course, even the hardest-hit REIT can still have significant downside risk. But for retirees willing to stay the course, the REITs are nothing short of compelling, as the "yield bar" gradually becomes lowered in this rock-bottom interest rate environment.

Retirees: Office and retail real estate probably isn't going extinct, at least not any time soon

Retirees ought to consider shares of **H&R REIT** (TSX:HR.UN), a diversified REIT that I've been pounding the table on over the past few months, after shares imploded on the coronavirus crash. The REIT took the axe to its distribution (shares now yield 6.2%), but I still thought the damage to the name had been overblown given the quality of its underlying real estate assets and how they'll recover in a post-pandemic world.

H&R REIT owns a considerable number of office and retail properties within geographies that have been severely affected by the coronavirus pandemic. Shares very quickly shed over 65% of their value in just weeks, as investors contemplated whether the pandemic would cause the death of office and retail space as we know it.

While the "stay-at-home" trend will likely remain until the coronavirus vaccine arrives, I think that when it's completely safe to go outside again that people will be headed back to the office, the shopping mall, and all the sort. You see, humans are social creatures, and, as we found out during quarantine, it can be pretty boring to do *everything* online.

Moreover, profound changes in consumer trends, such as the transition to e-commerce from brick-and-mortar retail, tend to be very gradual over prolonged periods of time until some sort of equilibrium is reached. While there's no question that this pandemic has accelerated the transition from physical to digital, I think we'll witness a strong "reversion to the mean" once things return to normal. Such a reversion could mean big risk-adjusted total returns for retirees.

Foolish takeaway

If you're like me and think the demand for office and retail real estate will bounce back towards pre-pandemic levels in a post-pandemic environment, now is the time to back up the truck on H&R REIT while shares are heavily discounted.

While it could take years for the REIT to grow its distribution again, I think the risk/reward is desirable for income-oriented investors, including retirees looking to supplement their CPP pension.

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