11% Yield: My Top REIT to Buy Right Now

Description

Seeking securities that sport 11% yields and up may sound like you're just asking for a big dividend cut. Given the coronavirus market crash and the potential for another significant sell-off over the coming weeks, though, you must realize that the yield bar has been and may continue to be raised.

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Warren Buffett once referred to the act of "reaching for yield" as a "really stupid" act, but one that's "very human." On average, reaching for higher yields can be reckless, especially for older investors who don't put in the due diligence prior to hitting the buy button.

When the markets are in a state of excess volatility, though, they stand to be less efficient, allowing investors a greater chance of being able to lock-in an above-average yield without stomaching nearly as much risk as they otherwise would.

The coronavirus disease 2019 (COVID-19) crisis has made it difficult to do homework on any investment. With many super-high-yielders out there, the sustainability of the dividend (or distribution) ultimately depends on when a vaccine will land and eradicate the insidious coronavirus. Such firms may not be suitable for a majority of income investors, as the dividend payout may be a sitting goose waiting to bet shot down.

That's why it's vital to not only analyze the balance sheet of a firm, but also the operating cash flows, or adjusted funds from operation (AFFO) when it comes to REITs, to get a better gauge of a dividend's longer-term sustainability.

A misunderstood 11% yield REIT that's still oversold beyond proportion

The following REIT, I believe, is hugely misunderstood and is a must-buy for income-oriented investors who seek a chance to have their cake (a colossal yield) and eat it too (outsized capital gains in a relief rally).

Without further ado, consider **Inovalis REIT** (TSX:INO.UN), a 10.8%-yielding REIT that I've been pounding the table on amid the coronavirus crash. I called the REIT a screaming buy in late March and early April after shares unjustly lost over 56% of their value in a matter of weeks.

"I never thought I'd view an 18.5% yield as relatively safe, but with Inovalis, I think that's precisely what you're getting at these depths. Amid the coronavirus pandemic, everybody is rushing to work from home, especially across France and Germany, which has been walloped by the coronavirus," I wrote in a prior piece.

"When the pandemic passes, employees will be heading back to the office, and Inovalis REIT will correct to the upside, as fears over surging vacancies prove to be exaggerated."

Today, the stock is around 90% higher than those March lows, but shares are still down over 30% from its all-time highs, so they're still a cheap way to get a big yield that isn't at risk of a reduction relative to most other double-digit yielders out there.

Inovalis REIT is still cheap, with one of the safer 11% yields out there

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Back in mid-May, management noted that the REIT is witnessing "near-normal rent collection for the second quarter of 2020" and that its property portfolio lacks exposure to the hard-hit real estate sub-industries of retail and hospitality.

Fellow Fool contributor David Jagielski praised Inovalis REIT, noting that it isn't as risky as other REITs given its relatively resilient cash flow stream. Jagielski is right on the money.

The overextended downward move in shares of INO.UN, I believe, was a result of a lack of understanding of the European-focused office REIT's exposure to the coronavirus and the fact that as a small-cap, it's more prone to more exaggerated market mispricing.

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