



Value Opportunity! 1 High-Yield REIT to Buy Right Now

Description

One thing nice about the current market situation is that there are more deals than there were a few months ago. Certainly, parts of the market are very expensive. Technology companies are going through the roof, utilities are flying, and consumer staples are holding steady. It is a very divided market.

One area that's [still very undervalued](#) is the REIT sector. There are so many excellent companies trading at relatively low valuations even today. While these companies have often moved off of their lows for the year, they are still trading at reduced levels.

Real estate

Of all the perplexing stocks, probably the most confusing in the current market situation is real estate. REITs were smashed when everyone was forced to stay home a few months ago. Many fell far more than 50% in the collapse and are still sitting at low levels today.

What makes my head spin is the difference between general real estate prices and the stocks of companies that own real estate. Real estate prices are rising at the moment and REIT prices are heading the opposite direction. So why is this dichotomy taking place?

The dilemma

Real estate prices are moving up in real-time at the moment due to the artificially low real estate prices put into place by the central bank. People are pumping money into the sector, making general real estate prices rise once again.

REITs like **Brookfield Property Partners LP** ([TSX:BPY.UN](#))(NASDAQ:BPY), on the other hand, trade on earnings and future growth. The threat to REITs is the lack of income from tenants. This has been happening over the past few months and may continue to be an issue if the economy remains weak for an extended period. Brookfield recently stated that rents are picking up as lockdowns are beginning to subside.

The long-term question for REITs is how much economic pain is coming down the pipeline. We have everyone; central bankers, the International Monetary Fund, and the OECD all proclaiming that things will be bad for some time.

Real estate prices

Another potential issue with general real estate prices is the very real possibility that real estate prices could collapse. Sure, right now prices seem to be improving. But what happens if the recession extends for a prolonged period?

I don't know how long the Canadian government can keep spending. It already lost its AAA rating from at least one ratings agency and we're only a few months into this thing.

If the recession worsens, people might begin to default on their loans at an accelerating rate. Remember, real estate is a very leveraged type of investment. If loans begin to go bad, it can turn into a deluge in a hurry.

For this reason, I am far more interested in keeping Brookfield Property Partners as an investment. The majority of properties are in the worst sectors, office and retail, which translated into a slaughtered share price. But it is also a member of the Brookfield group of companies. This global giant is best able to weather the storm due to its deep pockets and nose for deals.

It also has a pretty nice distribution to collect while you wait for this thing to double. At the moment, it has a double-digit yield that it should be able to maintain in spite of the downturn. It even aims to continue [raising its distribution](#) in the 5-8% range going forward.

The distribution is sitting at about 12% at the moment making this stock one of the highest-yielding in the REIT sector. In my opinion, this stock also has one of the best chances for maintaining that distribution going forward.

The bottom line

Real estate is on fire, but REITs are cheap. Despite the fact that there are legitimate concerns regarding the state of the economy and the transition to online commerce, Brookfield Property is positioned to shine in the future.

It will be a bumpy ride while you wait for the economy to get back on track, but if you hold on through the bad times, you will be glad that you bought into the name at such a reduced price.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:BPY.UN (Brookfield Property Partners)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
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