Lazy Landlords: Start Your Real Estate Empire With These REITs

Description

There's never been a better time to be a lazy landlord with Real Estate Investment Trusts (REITs) are battered as they are today. The COVID-19 crisis hit the real estate world ridiculously hard, and most REITs have barely recovered ground compared to most other stocks on the **TSX Index**. It's not hard to see why REITs are so out of favour amid this pandemic.

Rent deferrals, decaying rent collection rates, and the longer-term fallout from this pandemic have weighed on REITs. As the world recovers from this crisis, though, many oversold REITs could be in a position to correct to the upside once rattled REIT investors recognize the value to be had in some of Canada's most out-of-favour property plays.

Not all real estate sub-industries were impacted the same. COVID-19 landed a bigger hit to the chin of REITs with substantial office and retail property exposure. Think REITs like **H&R REIT** (TSX:HR.UN), down 55% year-to-date.

Other REITs were spared from taking on a brunt of the damage, such as **CT REIT** (TSX:CRT.UN), with its warehouse exposure and extreme concentration in the highly-liquid retailer **Canadian Tire**, a company that's too liquid to have to miss a month's rent.

Both the COVID-hit H&R REIT and the COVID-resilient CT REIT are great buys today for a barbell REIT portfolio.

H&R REIT

Having recently reduced its distribution, H&R REIT sports a bountiful, but relatively modest 6.7% yield. The fresh-cut distribution is now more sustainable, and if COVID-19 is conquered next year and H&R REIT can return to pre-pandemic rent collection normalcy, we could easily see the REIT boost its distribution by a significant amount.

For now, the diversified REIT, with its exposure to office and retail properties, is one of the more unattractive places to be in the entire market right now.

Over the three years, I think we'll witness some reversion to the mean in demand for office and retail space. And with that, H&R REIT could correct upward as sharply as it did in the years that followed the Great Financial Crisis. Fellow Fool contributor Kay Ng is bullish on H&R REIT's recovery prospects, and you should be too if you're looking for passive income at a good valuation.

CT REIT

CT REIT is a retail and warehouse-focused play that's done an outstanding job of holding its own amid the COVID-19 crisis. The REIT has demonstrated its resilience, with its 99.3% occupancy rate and rent collection rate, which bounced back to 98.5% in June.

In a prior piece, I highlighted CT REIT as a safer income-oriented way to play the strength of Canadian Tire's balance sheet. CT REIT derives around 92% of its revenues from the highly-liquid retailer. Even if the pandemic were to worsen, Canadian Tire is very unlikely to ask for a rent deferral given the cash on its balance sheet and the better-than-expected resilience of its operating cash flow stream.

As one of the REITs least affected by this pandemic, CT REIT is a must-buy, preferably alongside a COVID-hit bargain like H&R REIT.

Shares of CRT sport a 5.7% yield, and the distribution is in a spot to continue growing at a modest rate, regardless of what ends up happening next with the pandemic.

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TICKERS GLOBAL

1. TSX:CRT.UN (CT Real Estate Investment Trust)
2. TSX:HR.UN (H&R Real Estate Investment Trust)

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