CERB to EI Move Have You Worried? Make Your Own Income Stream With These REITs

Description

The jump from CERB to EI could be a bumpy one for many affected Canadians who remain unemployed due to this crisis. With another COVID wave looming, many re-employed individuals within hard-hit industries fear that they could be furloughed again. These ridiculously uncertain times undoubtedly have many Canadians feeling a bad case of financial anxiety, as the bills continue to pile up.

Many folks can't afford to miss a month's worth of relief payments. Although the thought of breaking open one's retirement nest egg is painful, many savers may unknowingly be in a spot to create a sustainable income stream that won't cause one to run the risk of running out of money entirely through this pandemic.

Income and value in the REIT space

Plenty of REITs are down in the ditches, with yields at the higher end of their historical ranges. The hardest-hit real estate sub-industries (office and retail) look downright toxic these days. But with shares of many such REITs trading at greater than 50% discounts compared to pre-pandemic levels, I think it'd be wise to go against the grain with some of the REITs that sport funds from operations (FFOs) that are far more resilient in the face of this crisis than most would give it credit for.

For former CERB-using Canadians looking to build an income stream, such REITs can offer the best of both worlds in generous monthly income and above-average capital appreciation potential. For income-oriented investors, one must put in the homework to ensure that they won't be on the receiving end of a distribution cut, which could accompany capital losses. Such a cut could act as a major one-two punch to the gut of income investors who are already under tremendous financial stress.

Steering clear of value traps

Avoiding the super-high-yielding REITs may save yourself from walking right into a distribution cut. But if you've got a long-term horizon and you're willing to put in the homework, I think shunning REITs based solely on the size of their yields could be leaving a lot of profit on the table.

Of course, there are also high-yield REITs that have already brought their distributions to the chopping block. While two consecutive distribution reductions can't be ruled out in a drastic worsening of this crisis, I think that it's a wiser idea to go with REITs that have already ripped the band-aid off, rather than a highly distressed REIT with a stretched payout ratio that has distribution cut written all over it.

Moreover, distribution reductions can be reversed with generous hikes once normalized conditions finally arrive. There's no telling when COVID will be conquered and when we'll be back to normal. But if you're a long-term thinker and have a REIT that's able to sustain its payout amid another round of shutdowns, you should be in good shape over the next three years and beyond.

An oversold REIT that former CERB users should buy for their income streams

Consider **H&R REIT** (TSX:HR.UN), a 6.6%-yielding REIT that previously took its reduced distribution amid the pandemic. The diversified REIT has a heavier weighting in retail and office properties, both of which are in a world of pain right now. Rent collection rates have been less than stellar through the worst of this crisis, but things have been improving modestly in recent months. Regardless, a second wave could reverse such progress, and H&R REIT and its peers could feel the pressure once again.

With a more sustainable payout this time around, though, I think CERB users and income investors can view the distribution as relatively safe. Shares of the name are too battered. Although many have lost hope in the recovery of office and retail real estate, I think the pessimism has been overblown and believe we'll witness a modest reversion in mean demand for such properties over the next five years.

In short, H&R REIT is severely oversold and can provide sustainable income and high upside potential for income investors who want to reduce their financial angst with an income stream that isn't subject to constant changes and potential delays.

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Author
joefrenette