Passive-Income Investors: REITs Could Rally Like it's 2009

Description

Passive-income investors should look to buy battered REITs before they have a chance to recover from this unprecedented crisis. Although we've not got a handful of vaccines that are on the cusp of a nationwide rollout, plenty of uncertainties remain, and that's a major reason why many firms within the most-affected industries have yet to return to their pre-pandemic highs. For the REITs, we're nowhere close to being out of the woods with this pandemic.

REITs could be ready to fly after the second COVID-19 wave dies down

Amid a worsening second wave, rent-collection rates could be poised to take several steps back again. Retail and office REITs will likely take the brunt of the damage once again. But if you're a passive-income investor who has a time horizon beyond just two years, it makes a tonne of sense to go against the grain with battered REITs today, even if it means being served with volatility and a potential distribution reduction over the near term.

For REIT investors, it's all about short-term pain for long-term gain right now. Unfortunately, many passive-income investors that tend to buy into the REITs are retirees who may not have the ability to take on excessive amounts of risk. While the risk of REITs retracing on negative surprises or setbacks over the coming months is high, I still think retirees have a lot to gain by swapping their unrewarding bonds for shares of severely undervalued REITs before they have a chance to sustainably recover, as they did in the years following the 2007-08 Great Financial Crisis, which was not kind to the REITs.

Eventually, the REITs recovered, and we witnessed a reversion in mean demand for various forms of real estate. This time around, though, many folks seem to be subscribing to the thesis that office, retail, and inner-city residential real estate will remain weak well after the pandemic ends, and it's safe to venture outside once again.

The post-COVID demand for real estate remains a huge

question mark to many

Some brilliant people, including Bill Gates, seem to think that there will be a permanent loss in demand in business travel and office real estate after COVID-19 has run its course. While I respect the man, I'm more inclined to believe that the demand for air travel and office real estate will face a reversion to the mean in the years coming out of the pandemic. Moreover, I think many investors subscribing to the thesis are causing shares of REITs like **RioCan REIT** (TSX:REI.UN) to implode well below that of their intrinsic value.

RioCan is a diversified REIT with exposure to all the wrong places amid the pandemic, with a heavy retail-focused mix. As you'd imagine, shares lost well over half of their value during the 2020 coronavirus market crash. Once Pfizer revealed its vaccine, RioCan shares shot up over 25%. As we inch closer to the end of this pandemic, I think RioCan's rally has only just begun. Shares are still off 34% from their pre-pandemic highs, and just like the explosive rally following the 2007-08 implosion in shares, contrarians who go against popular opinion will be the ones who'll stand to be rewarded the most.

Foolish takeaway

It's not easy to go against the grain on a REIT in the era of coronavirus. With something to be hopeful about up ahead, though, I think battered REITs like RioCan are among the least risky and the most rewarding plays on the entire TSX right now. Of course, a worsening wave could bring RioCan's distribution to the chopping block. Regardless, if you're a passive-income investor who's willing to hold for at least two years, now is the perfect time to get greedy.

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1. TSX:REI.UN (RioCan Real Estate Investment Trust)

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