2 Cheap High-Yield REITs to Stash in Your Passive-Income Fund

Description

I see great value in the REIT space right now. Although popular opinion makes some of the harder-hit REITs (think retail and office REITs) unworthy of touching with your investment dollars, I'd argue that the contrarian case has never made more sense now that we've got more clarity on the vaccine timeline. While almost every asset class is now considerably more expensive than in the depths of March and April 2020, I think the risk/reward in some of the hardest-hit REITs has never looked better with post-COVID normalcy now in our grasp.

Moreover, select REITs are thinly traded and are more prone to inefficient pricing by Mr. Market. So, if you're looking for high (and sustainable) yields for a lower price of admission for your passive-income fund, you may want to think about accumulating shares of **H&R REIT** (TSX:HR.UN) and **Inovalis REIT** (TSX:INO.UN) today before rent-collection rates (sustainably) revert towards their means in the post-pandemic environment.

H&R REIT

H&R REIT is a behemoth-sized REIT with a heavy weighting in office and retail properties, which comprise approximately 45% and 33% of collected rents, respectively. The COVID-19 pandemic hit H&R REIT shares ridiculously hard, causing the name to lose over 65% of its value in a matter of weeks. Over the subsequent months, HR.UN shares have been steadily climbing back, but they remain over 42% below their pre-pandemic 2019 peak levels.

Even if you think we're in for some very modest reversion in mean demand for office property types, H&R REIT is a strong buy here, as I think it'll only take a modest reversion to really move the needle on the stock.

Shares have a freshly cut 5.2% yield today, with rent-collection rates that are still well above the 90% mark as of January.

Inovalis REIT

Inovalis REIT owns some sought-after office properties in France and Germany. The REIT has typically commanded a yield that's just shy of 8% under normal conditions. The COVID-19 crash caused shares to yield north of 12%, providing investors with a rare opportunity to lock in a high yield at a low cost.

Today, the REIT's shares have climbed back 134% from the depths of March, and the yield has compressed to 8.6%. While Inovalis is no longer a steal, I still view it as one of the lower-cost ways to obtain a nearly 9% yield at a compelling discount.

Rent-collection rates were climbing back to normalized levels late last year. Once the pandemic passes, I'd look for shares to return to the $10-11 mark again.

The Foolish takeaway

With COVID-19 variants of concern that could threaten to affect vaccine efficacy rates and lengthen this pandemic, the REITs listed in this piece aren't without their fair share of risks.

Each REIT's distributions are on a healthy footing right now, but that could change in a hurry should this pandemic drastically worsen before it ends. As such, I wouldn't rule out the narrow possibility that could see each firm trim its distribution modestly from current levels in a bear-case scenario.

If you're a long-term investor and believe that we'll witness a (partial) reversion in mean demand in office properties in the post-COVID world, both H&R and Inovalis seem like they're trading at unsustainably low levels, making them top picks for those looking to give their passive-income funds a jolt.

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