Canadians: 2 High-Yield REITs Poised to Skyrocket Into the Stratosphere

Description

While the stock market has mostly recovered from the coronavirus crash of February and March 2020, the REIT (real estate investment trust) remains off considerably from its pre-pandemic highs, especially the hardest-hit ones operating in the real estate sub-industries that were the most impacted by the crisis.

Office and retail REITs have taken uppercuts to the chin, while residential REITs have taken less of a hit. Diversified mixed-use property plays with office and retail real property exposure are also still in the bargain bin. With the end of the COVID-19 pandemic now in sight, I think it makes a tonne of sense to go against the grain with some of the more bountiful high-yield REITs out there.

Deep value in the high-yield REITs

While I expect the pandemic will leave long-lasting demand damage, particularly for office REITs amid the work-from-home (WFH) shift, I'd argue that any modest reversion in mean demand for such real estate could have the potential to be a major needle mover for some of today's heavily discounted REITs.

Undoubtedly, there's still too much pessimism in the world of Canadian REITs, despite the vaccine progress. If you're looking for a shot to lock in a high yield alongside a shot at sizeable gains in the post-COVID environment, now is a great time to act, while most other investors flock into the sexier and more resilient income stocks.

Without further ado, let's have a look at two of my favourite high-yield Canadian REITs that look like great buys today.

SmartCentres REIT

SmartCentres REIT (TSX:SRU.UN) is my favourite opportunity in the high-yield REIT space today. The retail REIT is behind those popular **Walmart**-anchored strip malls known as Smart Centres. For a retail REIT, Smart has held its own amid the worst of the pandemic. That's thanks in part to its tenant base, a large number of which were deemed as "essential retailers."

With rent-collection rates near normal, the entire collapse in SmartCentres REIT, I believe, is completely unwarranted. The REIT kept its distribution (now at 6.6%) intact, and it's well on its way to growing its AFFOs (adjusted funds from operations) once again.

On a longer-term basis, SmartCentres could be in for a re-valuation to the upside, as it diversifies beyond retail. Residential and retail is the future of SmartCentres, and if you don't think brick-and-mortar is dead, Smart is a brilliant investment while it's still down 28% from its all-time high.

H&R REIT

H&R REIT (TSX:HR.UN) is another former high-yield darling that's been steadily climbing higher in recent weeks. The diversified REIT has considerable exposure to retail and office properties, both of which have taken a brunt of the damage amid the pandemic. If you're willing to go against the grain, H&R offers an interesting value proposition for Canadian passive-income investors.

Shares sport a bountiful 4.7% yield that's well supported by cash flows. It is worth noting that H&R's FFO payout, which should be lower than 50% this year, is now on the conservative side. Should things return to normal, and management becomes more confident in the path moving forward, the REIT could hike its distribution by a considerable amount, perhaps reversing the reduction it suffered back in 2020.

The trend for FFOs is up, and I think H&R REIT will continue on its upward trajectory, as further evidence of a recovery is revealed.

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