



2 Soaring High-Yield Canadian REITs to Buy and Hold Through 2021 and 2022

Description

Who says high-yield REITs can't make you quick gains? Two of the [hardest-hit](#) REITs during the pandemic are bouncing back in a big way. **H&R REIT** ([TSX:HR.UN](#)) and **SmartCentres** ([TSX:SRU.UN](#)) are soaring, and their momentum probably won't die down anytime soon, as we continue marching towards normalcy.

While such high-yield REITs aren't known to [appreciate substantially](#) over concise timeframes, they tend to do just that when recovering from crises. The coronavirus crisis was horrific, and it didn't matter which industry you were in.

The retail and office REITs took even harder hits to the chin through the worst of COVID-19 shutdowns. Now, with vaccines rolling out across the nation, normalcy has never been so close. While provinces are facing the worst wave of this pandemic, there's light at the end of the tunnel, and for the high-yield REITs like H&R and SmartCentres, that's more than enough.

At the time of writing, H&R REIT and SmartCentres REIT are up 92% and 66%, respectively, off their 2020 lows. Despite their incredible rallies, I still think there's ample value to be had in each REIT while they're still off considerably from their highs. And in this piece, we'll have a closer look at each name to see which, if any, is the right fit for your passive-income portfolio at these prices.

H&R REIT

H&R REIT is a diversified, high-yield REIT with a heavier weighting in retail and office properties — two of the hardest-hit property groups during this pandemic. Shares have been steadily climbing higher ever since **Pfizer** revealed its incredible vaccine breakthrough, and they haven't looked back. For those expecting a dip, I don't think it will happen, given a return to normalcy is almost an expectation for late 2021 or early 2022.

Today, the REIT yields a mere 4.5% but is in a position to be hiked by a very generous amount once rent-collection rates normalize. I think a 50% distribution hike could be on the table if all goes well and the pandemic ends next year. In any case, income investors who ditched the name during last year's

crash are kicking themselves, and they'll have to repurchase at higher prices.

While I'm no fan of office real estate, I think that any modest reversion to the mean demand for office space will be enough to send shares up even higher. While I think \$24 is off the table, I wouldn't at all be surprised to see shares eclipse \$20 by the conclusion of 2023, as remote workers head back to work and consumers head back to physical retailers.

SmartCentres REIT

SmartCentres REIT is a great way to play the return of physical commerce. The strip mall property play had a tough 2020, but given it housed essential retailers like **Walmart**, the REIT's funds from operations (FFOs) were never really in jeopardy. Despite major pressures on a minority of Smart's tenant base, the REIT had no problem keeping its distribution intact. If you bought on weakness as I did, you locked in quite the sizeable yield.

I'm much more bullish on the recovery in retail and expect Smart to break its all-time high at some point in 2022, as rent-collection rates normalize further and the firm looks to pick up traction with its mixed-use property growth projects, which could bring forth a major re-valuation to the upside.

For now, Smart is a robust retail REIT with a handsome 6.4% yield. In a few years from now, the high-yield REIT will be more of a retail and residential property play with a higher quality of FFOs.

Which high-yield Canadian REIT to buy for 2021 and 2022?

H&R REIT may have more room to run to its top, but I think SmartCentres is the better bet at these levels, as I think retail will recover much quicker than office. Moreover, I think the pandemic will leave a longer-lasting dent in the demand for office space. Many remote workers don't want to go back to the office, and many will be allowed to work from home well after COVID-19 is gone.

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2. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)

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