1 of My Top Canadian Picks for Passive Income

Description

There are still plenty of great bargains for Canadians on the hunt for big passive income. In this piece, we'll have a look at one REIT that not only has a secure and bountiful distribution but also promising growth prospects on the other side of this pandemic.

Undoubtedly, it can be easy to reach out for the highest yield you can get. But by doing so, you'll unknowingly run a greater risk of running into a dividend or distribution reduction.

Seeking value in the REIT space

Indeed, the bigger the yield, the dimmer the growth prospects tend to be. While passive income investors don't really care about capital appreciation on shares, growth could also serve a drag on longer-term dividend or distribution growth.

Undoubtedly, high-yield securities like REITs don't tend to deliver those handsome annual dividend hikes as some of the more attractive dividend stocks out there. And that's because they have to return the lion's share of cash flows to shareholders in the form of a distribution.

But if you're in it for the long run, distribution growth prospects matter. And if a REIT can grow its adjusted funds from operations in a meaningful manner over the years, shareholders can expect to get a nice raise.

Remember, investors should insist on above-average total returns (dividends plus capital gains), even if passive income is their top focus.

Without further ado, consider **H&R REIT** (TSX:HR.UN), one of my favourite high-yield REITs for Canadian investors to check out for above-average passive income and long-term appreciation.

H&R REIT: A cheap passive income powerplay

H&R REIT had a brutal 2020. It had to bring its distribution to the chopping block. The diversified REIT took a hit, as office and retail properties took on a brunt of the damage from the pandemic. Undoubtedly, it was among the worst of environments for a REIT like H&R.

That said, the tides are turning, and once the pandemic ends, I think shares could continue marching to much higher levels, as AFFOs continue to recover from the crisis.

Indeed, fans of the work-from-home thesis won't like H&R. But for those who don't buy that there will be no mass return to the office once COVID-19 is eliminated; H&R seems like a steal. Yes, the distribution got slashed, but as a result, I think long-term distribution growth prospects look highly favourable.

The REIT yields 4%, which is still pretty decent, giving room for the payout to increase modestly over the next few years. The REIT recently put up The Bow Tower in Calgary for sale in a deal worth nearly $1.7 billion.

Undoubtedly, many office towers in Calgary sit dormant, not just because of COVID-19 but also due to pressures unique to the region due to overexposure to the energy sector. The Bow sale could reduce the inherent risk on H&R's asset mix.

Indeed, there are no easy answers for the woes facing offices in downtown Calgary. The Bow sale is poised to reduce H&R's exposure to the region to around 3%.

I'm a fan of the sale and think the REIT could really turn a corner over the next 18 months. Passive income seekers take notice!

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