1 of the Best Canadian Investments for Passive Income

Description

There are many great Canadian investments that are suitable for passive-income investors looking for a bit more yield for a slightly lower price of admission. Indeed, it's tough to be overweight in risk-free securities these days, given how low rates are. There's a huge incentive to raise one's risk appetite. Still, jumping head-first into the deep end of the equity markets will not be everybody's cup of tea. Some folks will be content with sticking with cash and bonds, which yield far less than the rate of inflation today. Undoubtedly, holding cash, cash equivalents or fixed-income debt securities is likely to result in an erosion of wealth if inflation doesn't back down over the next year.

In this piece, we'll have a look at two passive-income plays that can offer a big bang for your buck. Even as the market wobbles, such passive-income stocks shouldn't be nearly as volatile as the broader indices.

Without further ado, consider European-focused **Inovalis REIT** (TSX:INO.UN), with a colossal 8.8%-yielding distribution that's safer than you'd think.

Inovalis REIT: An underrated nearly 9% yielding that's perfect for passive-income investors

If Inovalis REIT's nearly 9% yield is ringing alarm bells for you, it's just a sign that you're a prudent investor who knows the pains of being caught in a company or REIT that has to cut its payout. With a yield that's more than double that of the "4% rule," one would expect that Inovalis is in severe distress these days, with a stock that's probably a country mile away from its high and a balance sheet bordering on life support. This is not the case with Inovalis. The REIT, which focuses on office properties within urban centres across France and Germany, was pummeled last year. But shares have since come roaring back, as rent-collection rates move closer towards full normalization.

Yes, office REITs are arguably the ugliest place to be these days. But it's also one of the most neglected areas of the market, leaving plenty of opportunity to true contrarians to pay three quarters to get a whole dollar, so to speak. While Inovalis's distribution is far safer than it looks, there is concern that office demand will struggle to return to 2019 levels over the medium or even long term.

Still, the French workplace culture is very different from that in Canada or the United States. The work-from-home trend hasn't appealed to French workers nearly as much as Canadians or Americans. And once the pandemic winds down, French offices will likely recover at a quicker rate than Canada or the United States. Whether it makes a complete return is anyone's guess. But my hunch is that French office real estate could enjoy a full, if not nearly full, reversion to pre-pandemic mean levels of office demand. I can't say the same for Canadian or American office properties, which could continue to face waning demand, as employees demand greater flexibility from their employers.

Should you buy INO.UN stock now?

For now, I view Inovalis as a bargain. At $9 and change, shares are still off around 15% from their highs. As the world recovers from COVID, I expect shares to stabilize at $10. You'll get a nice 8.5-9% yield from Inovalis, but don't expect much in the way of capital gains, as Inovalis is a super-high yielder by design. With not much in the form of growth prospects, passive-income seekers should expect nil in the way of capital gains, even over the span of years.

CATEGORY

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