2 High-Yield REITs to Fight Back Against 6.7% Inflation

Description

Canadian REITs have been stalling out in recent months, but many are still worth loading up on for Canadians seeking shelter from all the inflation out there. The market volatility has also grown out of control, with the S&P 500 down nearly 13% from its high. It's been a bloodbath, with the tech-heavy Nasdaq 100 down around 22%.

Fortunately, Canadian investors don't need to embrace the choppiness if they can't stomach the churn. The REIT space is often neglected, but it's one of the most intriguing places to be, as inflation continues weighing heavily on the global economy.

Inflation is here: Don't count on central banks to have your back!

Though coming interest rates hikes aren't good for the REITs, I think that the dovish tone of the Bank of Canada (BoC) bodes well for them. With Canada's CPI numbers running hot, recently hitting 6.7%, it's alarming that the BoC has only delivered a modest hike so far this year. Undoubtedly, pundits may call for a full-point hike in May 2022. It would be needed to calm inflation down, but given the BoC's willingness to let inflation take off, it seems as though investors had better prepare for more of the same: inflation that could last through 2024.

Undoubtedly, inflation may be nearing a peak in the 6-8% range. But that's still alarmingly high. Today, you'd need a nearly 7% dividend yield just to stay ahead of inflation. That's simply unrealistic in the equity markets. Fortunately, there are high-yield Canadian REITs out there that can help you preserve your wealth, as inflation continues to bring harm to your nest egg.

Consider **Inovalis REIT** (TSX:INO.UN) and **BMO Canadian Equal Weight REITS Index ETF** (TSX:ZRE), which currently yield 9.9% and 4.1%, respectively.

Inovalis REIT

Inovalis REIT sports a nearly 10% yield. Though Inovalis is a REIT that's riskier than many of its lower-yielding peers, it's not nearly as risky as you'd think, given the security normally commands a yield in the 7-8% range.

Undoubtedly, the yield is a tad on the high side, and as an office REIT, the COVID headwinds are apparent. After climbing back so far from the abyss of 2020, shares of the European-focused office REIT have begun to sag again, recently falling to $8 and change per share. Shares are now off around 20% from its 52-week high due to a wide range of factors.

The rise of remote work is a concern, as too are new variants of COVID. Still, I think those who remain bullish on a return to the office can do well collecting the juicy payout.

On its own, Inovalis is a riskier play. So, it makes sense to balance it out with a broader basket of REITs. Enter ZRE.

ZRE

ZRE is an equal-weight mix of Canadian REITs spanning a range of real estate sub-industries from industrial, office, retail, and residential. For those seeking diversification and payout stability, ZRE is a one-stop shop that's more than worth its 0.61% management expense ratio.

ZRE makes it so simple to gain exposure to a wide range of Canadian real estate. Though the 4% yield will not help you outpace today's levels of inflation, it could help dampen the blow. Further, should the BoC begin to take inflation seriously, a 3-4% target could be reached in early 2024. Such a scenario would allow the ZRE's distribution to start allowing you to make a real return again.

CATEGORY

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Date
2025/07/20
Date Created
2022/04/30
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