2 Top Income Generators Nearing 2020 Lows

Description

REITs (real estate investment trusts) are magnificent income generators for retirees and other investors on the hunt for passive income on the cheap. After the TSX Index's latest 10% stumble, many such REITs have also trended lower. Some are flirting with lows not seen since the dark days of 2020. Though macro conditions have improved considerably in the last two years, when the economy was going into full-on lockdown, shares of certain hard-hit REITs can't seem to catch a break.

Over the coming weeks and months, I'd look to nibble at some of the fallen REITs on the dip, as they look to test critical support levels near their 2020 bottoms. Nobody knows if such levels will hold, as investors grow increasingly fearful of the U.S. Federal Reserve and Bank of Canada (BoC) interest rate hikes. With 50-100 bps hikes thrown into consideration, anything is possible. However, I think that the selling pressure is starting to get overdone. If anything, more than just rate hikes seem to be baked in here.

With such damage in the rear view, I see a widening margin of safety for some of the stable REITs that recently lost their way. And in this piece, we'll have a closer look at two that may be entering deep-value territory.

Canadian Apartment Properties REIT

Canadian Apartment Properties REIT (TSX:CAR.UN) is one of my favourite residential REITs to hold for the long haul. Undoubtedly, CAPREIT is known to be a growth-focused REIT with a share price that tends to be more stock-like (and volatile) in nature. As one of the largest residential real estate pure plays in Canada, investors should look to the name anytime shares fall into a bear market for a shot at locking in a "swollen yield" alongside above-average capital gains in the event of a bounce-back.

After slumping more than 23% from its high, CAPREIT has seen its secure distribution yield just north of 3%. Yes, a 3% yield is not much in a time when inflation is running hot at over 6%. However, as a growth-focused REIT with some of the best residential properties in some of the hottest Canadian real estate markets out there, investors would be wise to keep watch of shares, as they look to test lows not seen since 2020.

Undoubtedly, the relief rally off 2020 lows has faltered in a big way. While there's no telling if shares will fall back to $40 and yield closer to 4%, long-term contrarians should carefully consider averaging into a longer-term position. CAPREIT is a top performer that lost its way. Once the current slate of macro fears blows over, I'd look for the incredibly well-run REIT to start marching higher again.

H&R REIT

H&R REIT (TSX:HR.UN) is another Canadian REIT that's been tough to hold this year, now down over 17% year to date. Indeed, shares kicked off 2022 with a devastating plunge — a negative reaction to the completion of its Primaris properties spin-off. Now, H&R has undergone significant change since the 2020 stock market crash. The diversified REIT is attempting to gravitate away from office and retail, with sights set on industrial and multi-residential properties.

Undoubtedly, H&R is being punished for making huge changes after the pandemic has already struck, knocking billions off the REIT's value. However, I think H&R is getting back on the right track. Shares are incredibly cheap here, with a juicy 4% yield.

Though H&R may have lost its way, recent moves indicate that it's getting back on the right track. That alone makes shares worth scooping up!

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