A Top Residential REIT to Buy Right Now

Description

High-yield REITs (real estate investment trusts) have taken one on the chin of late, inspiring some passive-income investors to hit that sell button. Though the volatility has spread to the world of real estate, I don't think investor panic is warranted, especially when it comes to the many high-quality REITs out there that are very unlikely to see their adjusted funds from operations (AFFOs) plummet in a way such that the distribution will need to be reduced.

Indeed, distribution cuts from a REIT are quite unforgivable. Still, income investors should evaluate REITs and their ability to fare during times of economic turmoil. Now, nobody knows if we'll even be in a recession a year from now. Even if we are, it's hard to gauge how severe it will be. These days, the consumer has shown a bit of fragility.

Whether it's from the current rate of inflation (it's hot right now at nearly 7% in Canada), or anticipation of a recession, it's clear that there are signs that economic growth prospects are getting a bit murkier. Undoubtedly, we've seen a lot of firms pausing hiring and laying off workers. That may be a troubling sign, but is it really indicative of a recession?

The case for buying REITs in the face of a potential recession

The inverted yield curve in the United States did not help the cause. However, I think recent negative headlines are not just the beginning of an ominous trend. You see, the global supply chain is a mess right now. Until supply chains can get back into order, firms may lighten up on hiring until things are in the right spot. As for the consumer, it's really hard to tell what the next step will be. Though it's nice to be optimistic, it can't hurt to prepare for the worst.

Stagflation is not what anybody wants. However, a worst-case scenario could see higher interest rates and a worsening of the employment situation. As an investor, one needs to be prepared. Fortunately, REITs stand out as a safe place to park cash, as stocks look to tumble further into a bear market.

REITs are not immune to economic damage by any stretch of the imagination. But their lower betasand huge distributions can help investors better get through a tough year ahead.

Currently, I'm a big fan of residential REITs like **Killam Apartment Properties REIT** (TSX:KMP.UN).

Killam Apartment Properties REIT

Killam is a very intriguing residential REIT, with most of its operations in Atlantic Canada. The REIT is quite small, with a market cap just north of $2.2 billion. With stellar Q1 results in the books, Killam has a pathway to growth, even as the broader economy sinks into recession. Occupancy rates are not only strong (currently at 98%), but they're at a decade high. And they could continue rising over the coming quarters. Undoubtedly, the REIT is well managed and disciplined, with a prudent M&A strategy. The REIT unlocks hidden value from the acquisition of undervalued real estate assets.

I'm a big believer in the managers' ability to extract value via their M&A prowess. Further, I view Killam's properties as more resilient in the face of tougher times. Demand is hot right now, and the firm looks far more recession resilient than most other REITs today. I expect it will keep wheeling and dealing as opportunities arise. All the while, the distribution (3.7% yield at writing) looks more than safe and poised for long-term growth.

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