Passive-Income Investors: 1 Undervalued Growth REIT Fit for Beginners

Description

Stock markets have been nothing short of turbulent going into June, but beginners should continue to stay the course, even as we inch closer to the next big rate hike.

Earlier this week, the Bank of Canada raised rates by 50 bps in a rather unsurprising move. In its battle against high levels of inflation, it could raise rates such that they settle above the 3% mark. Indeed, beginners should expect them to implement a more data-driven approach, as the U.S. Federal Reserve plans to do moving forward. Should inflation show signs of backing down, fewer rate hikes could be in the cards, and that could be tremendously bullish for stocks, even in the face of escalating geopolitical tensions.

Like it or not, good news is still possible. With China reopening its economy from COVID lockdowns for the summertime, supply chain issues could resolve quicker. Though the consumer has shown signs of weakness, I'd argue that most of the demand will still be there once supply can catch up. Further, recent signs of cooling U.S. inflation could leave investors feeling more hopeful than they were just over a month ago.

More rate hikes are coming in the second half, but don't panic!

Whether or not the second half of 2022 mirrors the first half, I think it's a great time to put excess capital to work. At the end of the day, it's hard to tell where inflation and the bond market will be headed. As such, market surprises should be expected — not just negative ones, like the "economic hurricane" that Jamie Dimon sees coming, but good ones that could cause investors to breathe a sigh of relief.

There are great market bargains across many sectors and asset classes right now. The REIT (real estate investment trust) scene, in particular, looks attractive to those who seek big passive income. As share prices fell, yields have risen. And if REITs are due for a relief bounce alongside the rest of this market, yields could compress again towards their normalized rate.

Interrent REIT: A growth and income play that's down and out

In this piece, we'll have a look at one growth REIT that's cheap, with a yield that's slightly higher than where it is typically. Enter shares of **Interrent REIT** (TSX:IIP.UN), a $2 billion residential property play that's powered solid capital gains over the long haul. With a disciplined acquisition-driven growth strategy, Interrent has been able to bolster investors' total returns for quite some time. Indeed, buying low, adding value, and renting at slightly higher prices is a strategy that's paid off big time.

As interest rates rise, Interrent's growth profile could take a modest hit. The costs of borrowing could slow the pace of acquisitions. Worse, a recession could have an impact on cash flows. Regardless, I remain a fan of Interrent while shares are down over 26% from their highs. The 2.5% distribution yield and 5.47 times trailing earnings multiple make for a very compelling buy-the-dip candidate for beginners seeking growth and income over time.

Further, if rates don't need to surge above 3%, as some expect, a small correction to the upside could be in order for shares of the hard-hit residential REIT.

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