Passive-Income Top Picks to Buy in a Bear Market

Description

REITs (real estate investment trusts) are one of my favourite asset classes to buy on market-wide weakness. Not only are they slightly less correlated than the broader equity markets, but they also have the incentive of a higher yield for investors to keep. Pending a distribution cut, REITs tend to be incredibly rewarding for long-term investors seeking sustainable passive-income sources.

Many high-quality REITs aren't going to slash their distributions once the next economic downturn arrives. With central banks (Bank of Canada) ready to raise rates to much higher levels to eliminate the horrific inflationary pressures, a lot of strength will be taken out of the economy.

Higher rates and slower growth incoming

Earnings have been robust thus far, and we could be in for a short-lived earnings slowdown or bump in the road rather than a severe economic contraction.

In any case, those seeking passive income should look to the REIT space if they have the liquidity to take advantage of the recent market-wide pullback. Many REITs tend to get unfairly punished when fear and panic grip Bay and Wall Street, making them compelling contrarian dip-buy candidates in bear markets.

In this piece, we'll look closely at one powerful REIT that I think can dodge and weave through coming rate hikes and their negative effect on economic growth.

Consider shares of **Canadian Apartment Properties REIT** (TSX:CAR.UN), one intriguing play in the robust residential real estate space.

Canadian Apartment Properties REIT

CAPREIT is one of the most prominent publicly traded residential REITs out there. Though inflationary pressures have worked against the REIT, it should have few issues raising the bar on rents gradually over time, even if economic growth slows down. Shares of the REIT have been hit hard, as the rate-induced economic slowdown has been perceived, as taking a bit jolt out of the firm's growth profile.

CAPREIT is a growth REIT, and higher rates do not bode well. Still, after a 25% drop year to date, shares boast a 3.3% yield, making it incredibly bountiful for a firm with such prized real estate assets in some of the hottest rental markets in Canada.

At 5.7 times trailing earnings, with a robust cash flow stream, I'd argue that CAPREIT is more than buyable while it's in a bear market. Sure, shares could fall by another 10-30% before it bottoms. At $44 and change per share, though, you're getting a high calibre of prized real estate assets. For passive-income hunters willing to ride out what could be a 2023 recession, CAPREIT is nothing short of intriguing.

The Foolish bottom line

When things get choppy, it may make sense to be a buyer for high-quality REITs. CAPREIT is a fine REIT that seems oversold and undervalued after falling at the hands of broader market fears.

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