2 Top Passive-Income Buys With Swelling Yields

Description

Passive-income investors have a lot of reasons to be bullish, as most others turn bearish over rate hikes and a potential swing into a recession. As share prices plummet, yields will rise accordingly. Assuming there's no dividend or distribution cut, swollen yields can signal that a stock is an attractive long-term buying opportunity.

Of course, careful analyses of how cash flows will hold up in a period of economic contraction are essential. Nobody wants to be dealt a dividend cut or reduction, especially during difficult periods when investors need the income most.

Rate-fueled slowdown weighs heavily on the TSX

With the Bank of Canada (BoC) shocking many with a 100-bps (a full point) rate hike, questions linger as to how severe a 2023 recession can get. Indeed, a 100-bps hike is the largest served up in decades. While it may be a cause for concern, I'd argue that it's far better to front-load the hikes to get rid of inflation.

If the BoC hikes by too much, it can always backtrack. What it can't do is go back in time and increase the magnitude of its hikes. Inflation would have already worked its insidious effect on the purchasing power of consumers.

Though the mix of higher interest rates and slower economic growth isn't optimal for REITs (real estate investment trusts) or other high-yielding, capital-intensive firms, I do think that too much negativity is baked in.

Consider shares of **Canadian Apartment Properties REIT** (TSX:CAR.UN) and **Killam Apartment REIT** (TSX:KMP.UN), two sold-off real estate plays that seem too good to pass up for those looking to lock in their higher yields.

Canadian Apartment Properties REIT

Canadian Apartment Properties REIT is a very high-quality REIT that's one of the best known in Canada. The REIT plunged more than 30% from its all-time high on the back of the broader market selloff. At around $43 and change per share, CAPREIT is trading at levels not seen since the depths of the 2020 stock market crash. Are things as bad as they were when pandemic lockdowns swept the country? Probably not.

CAPREIT is a growth-focused REIT, and higher interest rates could take a step out of its stride. While CAPREIT could miss a beat, it would be foolish (with a lower-case *f*) to underestimate the resilience of the REIT's cash flow stream, as we move through a difficult period.

The REIT, which owns a considerable amount of sought-after real estate in Vancouver and Toronto (two of the hottest rental markets on Earth), is still very much growth oriented. The 3.32% yield and 5.7 times trailing earnings multiple make CAPREIT a top pick for passive-income seekers to consider stashing in their long-term TFSA or RRSP funds.

Killam Apartment REIT

Killam is another growth-oriented REIT that's quite similar to CAPREIT. The major difference is its concentration in the Atlantic coast region. Like shares of CAR.UN, Killam shares are down around 30% from their recent high, dragged close to 2020 lows by fears of higher interest rates — which could dampen growth prospects — and a coming economic contraction.

At this juncture, I think the selling is overdone. Killam may be a mid-cap name with a $1.93 billion market cap, but it's incredibly well managed. With a juicy 4.2% yield and a 5.8 times trailing earnings multiple, it seems as though the market thinks the big distribution growth days are over.

Despite the headwinds, I think Killam can acquire its way to alleviate the growth-dampening effect of higher rates.

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