Passive-Income Top Picks: 1 REIT With a Jarring 11.5% Yield

Description

Passive-income investors have a lot of options to pick from with the REIT market now off considerably from its all-time highs. **BMO Equal Weight REITs Index ETF** — my preferred gauge of how the Canadian REITs are faring — is down just shy of 18% from its peak. Indeed, the index ETF has recovered slightly from a spill of more than 23% from peak to trough. As REITs attempt to add to their rallies, the window of opportunity to grab those swelling yields could be coming to a close. Remember, as share prices rise, yields tend to shrink accordingly, and vice-versa.

Now, I have no idea whether the REIT market will rebound to its highs in the second half of the year. Still, one can't help but be enticed by the hefty yields, many of which still seem sustainable in the face of a period of economic slowness.

Inovalis: One of the highest yields out there

While I wouldn't load up on the highest of yielders, I think **Inovalis REIT** (TSX:INO.UN) is one of the ultra-high-yielders that I'd look to nibble away at over the next few quarters. The REIT currently sports a 11.5% yield. It seems too good to be true. However, it's not necessarily at risk of a substantial cut if the coming global recession ends up being "short-lived," as **RBC** analysts expect.

For those unfamiliar with Inovalis, it's a mid-cap REIT focused on office properties in the French and German markets. It's an outlet to play European offices, and it's a great way to diversify your portfolio beyond the confines of Canada. The $235 million REIT trades at 8.24 times trailing earnings, making it a great deal that will see its yield continue to swell amid its downfall.

A more stable distribution than you think

Inovalis is not a safety play by any stretch of the imagination. The payout is relatively stretched, but will it stretch to its breaking point, as rent collection rates fall under pressure in an imminent recession? That's the million-dollar question that nobody has the answer to at this juncture. For now, the payout ratio still sits below the 100% mark, which is encouraging for the health of the distribution through these trying times.

During the 2020 stock market crash, Inovalis's payout held, even as other TSX REITs brought their distributions to the chopping block. Sure, the 2020 recession was short, and a 2023 recession could prove more detrimental to adjusted funds from operations (AFFOs) or the cash flows used to fund the REIT's distribution.

In any case, the more than 30% slide in the REIT seems overdone, presenting contrarians with an opportunity to "lock in" the double-digit yield alongside considerable upside gains.

Value investors, take notice: A huge discount to book!

At 0.7 times book value, Inovalis trades at a considerable discount to book, making it a very intriguing deep-value play for aggressive passive income seekers. Even if the massive 11.5%-yielding distribution is destined for a trim in a 2023 recession, I'd argue that shares are still underpriced. Seldom does such a large discount to book happen in a normalized market. Passive-income investors, take notice!

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