Passive-Income Investors: This REIT Is a “Must-Buy” Right Now

Description

REITs (real estate investment trusts) are great investments for long-term investors who seek sustainable passive income and less volatility than the broader markets. Indeed, Wednesday proved to be a rather choppy session of trade, as markets swung lower on hawkish commentary from the U.S. Federal Reserve.

Though the Fed’s comments were hawkish, they shouldn’t have come as a surprise, given inflation is still running way too hot (8.5% in the U.S. and 7.6% in Canada), calling for even more jumbo-sized rate hikes in the second half. Indeed, inflation remains one of the biggest risks to this market rally.

Investors looking to chase the fastest-flying stocks may be at risk of “fighting the Fed.” It’s never a good idea to base your investment decisions on the outcome of an exogenous event. With the Fed standing firm in its fight against inflation, I think investors should not feel tempted to act either way. Undoubtedly, the latest dip in markets may be due to impatient investors who want to hear talk about rate cuts rather than hikes. Though rate cuts may still be on the table after inflation is dealt with, talk about cuts at this juncture, I believe, doesn’t make a lot of sense, especially given such comments could reignite consumer sentiment and fuel further inflationary pressure.

Central banks are right to be data driven. And investors worried about a reversal over rate hikes should look to the REIT space while there’s still value to be had. The REIT space isn’t just less correlated to markets; REITs may be richer with value following the latest rate-induced slip.

Interrent REIT (TSX:IIP.UN) is one intriguing bargain in the REIT scene.

Interrent REIT

Interrent REIT is a multi-family residential real estate play that’s grown leaps and bounds through mergers and acquisitions over the years. The firm is a master at renovating older properties and restoring them in a way to command higher rents. Over the long haul, Interrent’s proven strategy has yielded solid TSX-beating gains.

Recently, shares of IIP.UN slipped around 38% from peak to trough before recovering some ground over the past few weeks. At $13 and change per share, Interrent REIT remains at pandemic-era levels, which, I believe, doesn't make much sense, given things aren't nearly as gloomy as they were in the early part of 2020. The world isn't locked down, and rent-collection rates aren't at risk of a colossal nosedive.

In any case, a recession could weigh heavily on the ability to collect rents. Still, pundits expect the coming recession to be quite mild. If so, IIP.UN stock looks like a steal at current valuations. At writing, shares trade at just north of five times trailing price-to-earnings (P/E), well below industry averages. The P/E seems to suggest some very tough times ahead. If the coming recession isn't as horrific as most think, Interrent could easily find itself rebounding back to former highs of around $19 per share.

Recently, Johann Rodrigues of IA Capital Markets called Interrent a "must-own REIT." I couldn't agree more. Rodrigues cited an overreaction to the effect of higher interest rates and "punitive" policies that could be introduced.

Though the 2.6% yield isn't all too swollen through the eyes of income investors, I think value-conscious investors can find comfort in the name at these depths. The risk/reward scenario just seems too good here.

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