Beat 7% Inflation With 2 High-Yield REITs

Description

Canada's inflation rate declined for the second consecutive month in August 2022. It went down to 7% from 7.6% in July and 8.1% in June. However, the latest reading is still far from the central bank's target range of 2% to 3%. Meanwhile, the oversized rate hikes by the Bank of Canada caused a dramatic cool down of the real estate market.

Based on published reports, current home prices are comparable to the level 18 months ago. According to Robert Kavcic, a senior economist at BMO, falling home values have a knock-on effect for the rest of the economy. Besides the depressed housing activity, spending on building materials, furniture, and related housing stuff will drop.

For investors, it's not sensible to snap up properties for investment purposes at this time because a market crash is possible. Also, recovery might take longer if the aggressive rate hikes extend until next year. On the **TSX**, the real estate sector isn't doing good either. However, two real estate investment trusts (REITs) are enticing prospects for income investors.

True North Commercial (TSX:TNT.UN) yields an ultra-high 9.82%, while the dividend offer of **Slate Office** (TSX:SOT.UN) is 8.88%. Their dividend yields dwarf the 7% inflation rate last month.

Solid tenant base

True North's primary appeal is its tenant base. The long-term leases of this $1 billion REIT are with government and credit-rated lessees. Also, these renters account for 76% of rental revenues. Among its anchor tenants in its 46 commercial properties are federal government and provincial government of Canada offices.

All financial metrics are up after the first half of 2022, including the collection of 99.5% of contractual rent. In the six months ended June 30, 2022, revenue and net operating income (NOI) increased 4% and 5% versus the same period in 2021. Net income and comprehensive income jumped 87% year over year to $30.4 million.

True North’s occupancy rate declined 1%, although 96% is considerably high. The remaining weighted average lease term is 4.3 years. If you invest today, the share price is $6.05. Assuming you buy $24,500 worth of shares, you would earn $200.49 in dividends every month.

Comeback mode

The office rental market suffered from the pandemic-induced lockdowns and work-from-home environment. However, Slate Office seems to be in recovery mode. This $379.4 million REIT owns and operates high-quality workplace real estate in North America and Europe. The majority of its tenants are government and credit-rated tenants.

In Q2 2022, rental revenue and NOI increased 18% and 17.8%, respectively, compared to Q2 2021. The quarter’s highlight was the 301.7% year-over-year increase in net income to $22.8 million. Steve Hodgson, CEO of Slate Office, said, “Our team’s strong quarterly leasing activity at double-digit spreads contributes meaningfully to the resiliency of our portfolio and the durability of our income.”

Hodgson adds that financial stability continues to contribute to the well-covered dividend yield. Slate Office is also well-positioned for organic growth and acquisition activity. At only $4.50 per share, you can partake of the generous dividend yield.

Top dividend plays

The inflation last month was lower than expected, although the Bank of Canada will likely keep interest rates in restrictive territory. If you want exposure to the real estate market, low-priced True North and Slate Office are inflation-beating dividend plays.

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