2 REITs That Will Pay You to Wait in a Recession Year

Description

Passive income investors have many reasons to give the beaten-up REITs (Real Estate Investment Trusts) another look, as valuations across the board continue to contract. It's a nasty bear market, and it may not be over by year's end. If you're in it for the long haul, though, now seems like a great time to buy the dip in some of the bruised REITs that are beginning to show signs of bottoming out. The worst of the storm looks to be in the rearview mirror. And while a V-shaped bounce may be off the table, I do think it's tough to pass up the slightly higher yields at today's multiples.

Without further ado, let's have a closer look at two intriguing Canadian REITs with distributions that will keep paying you through a recession. With inflation at alarming highs, such REITs can play a major role in helping your TFSA or RRSP preserve its purchasing power.

Consider shares of **Interrent REIT** (TSX:IIP.UN) and **Canadian Apartment Properties REIT** (TSX:CAR.UN), two of my favourite passive-income bets in the current environment.

Interrent REIT

Interrent REIT has done a great job of acquiring multi-family residential properties with the goal of renovating them to increase rent rates. With a sound management that knows how to grow via prudent acquisition, Interrent is one of few REITs that can consistently outperform the broader TSX Index over a prolonged period of time.

Of late, Interrent REIT has been in the gutter, just like most other stocks and REITs these days. Shares are down around 37% from their recent highs and are right back to pandemic-era prices. Undoubtedly, higher rates and a recession are more bad news for a REIT that was able to climb all the way back from the COVID crash before imploding again.

Though the macro environment is not great for a growth-centric REIT like Interrent, I do think the valuation is too good to pass up after the recent plunge. Shares trade at 4.5 times trailing price-to-earnings (P/E), making it one of the cheapest (and safest) ways to grab a 3% yield.

Canadian Apartment Properties REIT

CAPREIT is another growth-flavoured Canadian REIT that's taken a hit due to higher interest rates. Higher borrowing costs and a harsher economic climate do not bode well for growth prospects. Though a recession could weigh on rent collection rates and perhaps bring vacancy rates a tad higher, I don't think a 2023 economic downturn will be nearly as bad as the 2020 lockdown.

Like Interrent, CAPREIT has taken a roundtrip right back to pandemic lows. With a 3.5% yield and a modest 11.6 times trailing price-to-earnings (P/E) multiple, I think CAPREIT is one of those growth REITs that beginner investors can buy for their TFSAs and forget they own it.

In due time, CAPREIT will be ready to power higher again. With all the chatter about rate cuts following the current tightening cycle, I'd be unsurprised if CAPREIT finds its footing before the summer of 2023. CAPREIT is too high-quality a firm to be left unbought at these depths, in my opinion.

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