Why High-Yield REITs Are Due for a Comeback in 2023

Description

It wasn't just the stock and bond markets that took a left hook to the chin last year. REITs (real estate investment trusts) took quite the beating as well, with some of the higher-yielding ones now boasting slightly higher yields as a result of the share price depreciation amid the U.S. bear market that's spread across various Canadian securities.

Indeed, higher rates from the Bank of Canada have not been great news for REITs across the board. From higher-growth REITs to the Steady Eddies helping Canadian Tax-Free Savings Account passive-income funds across the nation, the REIT selloff has been felt by many investors, young and old.

As is the case with most selloffs, the market tends to overdo things when negative momentum is in full swing. When it comes to the REITs, 2023 will definitely see more in the way of challenges. Even higher rates and a recession hitting Canada could weigh heavily on the emotions of REIT investors. Regardless, I view many of the Canadian REITs as worth picking up right here in the face of a downturn.

Is it safe to buy REITs ahead of a recession?

It's not easy to be a net buyer of securities right now, even with a recession expected by many on Bay and Wall Street. Undoubtedly, many pundits at the big banks are calling for a bit of pain in the first half before a nice recovery into year's end. I'd treat such forecasts with a grain of salt. Predicting markets over the near term is a fool's (that's a lower-case *f*) game. Who knows? Markets may have already priced in a year-end recovery. As a result, we may just flatline for the next 11 months without so much as another 10% drop.

Indeed, it's tempting to wait for the next drop before picking up shares. While I'm always open to keeping dry powder to buy sudden dips, I think it's a wise idea to slowly add cash into opportunities that are available today with the intent of buying more on further weakness. The decent prices today may not be here tomorrow, and if you're heavy on cash, it may be time to give REITs another look to bolster your income stream.

When it comes to REITs ahead of a tough environment, I prefer quality over yield. That's not to say that quality REITs can't also have attractive yields.

Stick with quality REITs that have secure payouts

SmartCentres REIT (TSX:SRU.UN) and **H&R REIT** (TSX:HR.UN) stand out as great value options with secure yields of 6.45% and 4.6%, respectively.

SmartCentres is a retail REIT that's pretty misunderstood. It's behind the many strip malls anchored by **Walmart**. Undoubtedly, Walmart has done a magnificent job of holding its own through inflation and the recession. And Smart stands to benefit from the continued health of its top tenant. Walmart drives traffic in tough times, and that traffic goes to Smart's other tenants, many of which won't be in financial trouble come a 2023 recession. The way I see it, 2020 lockdowns were a stress tester for retail REITs. In that regard, Smart passed with flying colours.

H&R REIT is a better pick for those fine with office exposure. The REIT has endured quite a bit of change in recent years, with asset sales and an unfortunate distribution reduction. The new distribution is modest and on sounder footing. At these depths, I view H&R as a bargain that could deliver on the capital gains and distribution fronts.

Challenges remain, but at these valuations, I'd say it's tough to pass up the name. Whether or not a comeback is underway, I'm a fan of the risk/reward here for those willing to collect the distribution over the next three years.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:HR.UN (H&R Real Estate Investment Trust)
2. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)

PARTNER-FEEDS

1. Business Insider
2. Flipboard
3. Koyfin
4. Msn
5. Newscred
6. Quote Media
7. Sharewise
8. Smart News
9. Yahoo CA

PP NOTIFY USER

1. joefrenette

2. kduncombe

Category

1. Investing

Date
2025/08/13
Date Created
2023/01/26
Author
joefrenette