



Smart REIT: This Boring Stock Could Make You Rich

Description

Real estate investment trusts aren't usually known for being sexy investments.

Smart REIT ([TSX:SRU.UN](#)) is a perfect example. The company develops and owns retail real estate all across Canada, with an emphasis on Ontario. It has become **Wal-Mart Stores, Inc.'s** ([NYSE:WMT](#)) developer of choice in Canada, owning 108 locations with Wal-Mart as an anchor tenant. The world's largest retailer accounts for 26.8% of Smart's total rent.

And that's it. That's the whole business. It's deceptively simple.

Yet Smart REIT has been a sexy investment. Since November 2003, including reinvested dividends, an investment in the company has returned 15.93% annually. Or, to put it another way, a \$10,000 initial investment has grown to be worth \$68,369.

After that kind of return, investors might be worried they've missed the boat. Hardly. Here's why the next decade (or more!) could end up being every bit as lucrative.

Continued Wal-Mart growth

Wal-Mart is crushing it in Canada, even in a tough retail environment. Same-store sales are up 3.9% for the first half of 2016, as the chain focused on keeping grocery prices down. Same-stores sales have now increased nine quarters in a row.

Wal-Mart has approximately 400 stores in Canada versus more than 5,200 stores in the United States. The company should continue to open stores in Canada.

There's also the possibility of Smart slowly acquiring locations from Wal-Mart both in Canada and the United States. Some investors have put pressure on Wal-Mart to monetize its massive real estate holdings. With \$190 billion in property, plant, and equipment assets on its balance sheet, Wal-Mart could raise a lot of capital if it decided to go this route.

More great results

Smart REIT has current occupancy of 98.2%, which is among the best in the business.

There are a couple reasons why. The first is the age of Smart's buildings. Its overall portfolio has an average age of under 10 years, which makes it attractive to prospective tenants. Newer buildings look nicer and have fewer maintenance issues.

The second reason is Wal-Mart. It attracts massive amounts of foot traffic. These people don't just shop at Wal-Mart; they're also checking out shops attached to Wal-Mart. This is appealing to other tenants, even ones that compete against with the behemoth from Arkansas.

A great example is **Reitmans**, which sells women's clothes under a number of different banners. Wal-Mart sells women's clothes as well, but Reitmans still has more than 100 stores located in Smart's real estate. There's obviously some significant overlap there.

Resistance to online sales

Many investors are concerned about the future of the shopping mall, worried that online shopping will make the concept obsolete.

There's definitely potential for that happening, but Wal-Mart's presence makes it more likely Smart can easily survive the trend. The company has moved more into groceries, which haven't really been impacted by online sales. And Wal-Mart has quietly become a major online player with many customers choosing to pick up their purchases in store.

Slow and steady is all it takes

All Smart needs to do is deliver steady capital gains and continue to maintain its dividend, and it can be a great investment.

The stock currently yields 5.3%—its highest yield in months. The whole REIT sector has sold off on fears over interest rate hikes.

All the stock would have to do is increase 4.7% annually to hit a 10% total return. That's very achievable.

If Smart delivers a 10% total return, a \$10,000 investment made today would be worth \$25,937 in a decade, \$67,275 in 20 years, and \$452,592 in 40 years.

That's not asking for much. Remember, Smart returned nearly 16% annually over the last 13 years.

The bottom line

Smart REIT has a lot going for it. The partnership with Wal-Mart will continue to yield good results, the stock pays an attractive 5.3% dividend, and it has multiple growth avenues. It looks likely to deliver great returns for a very long time.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:WMT (Wal-Mart Stores Inc.)
2. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)

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