Smart TFSA Investors Should Really Consider This Undervalued REIT

Description

Smart REIT (TSX:SRU.UN) is a high-quality retail-focused REIT that offers a bountiful 5.63% yield. Many investors are worried about the death of the shopping mall and the implications on shopping centre REITs like Smart, but the fact of the matter is, the trust is still doing very well with occupancy rates north of 98%. Shares of SRU.UN are down nearly 18% over the past year, and it appears that shares continue to drop below the $30 levels, but I think it's a smart strategy to buy shares on the way down as the yield climbs to the 6% levels.

I believe the fear of the death of the shopping mall is blown out of proportion. When you look at the recent second-quarter results, everything appears to be in good shape as the management team continues to expand to support future distribution increases.

Canadian malls have a better "design and atmosphere"

Sure, the rise of digital retailers isn't great news for shopping centre traffic, but the real lower traffic issue is for malls located in the U.S.

An analysis from the Retail Council of Canada showed that, on average, Canadian malls are more productive than their U.S. counterparts with average sales of $744 per square foot versus US$466 sales per square foot for Canada and the U.S., respectively.

In addition, Canadian malls have a per-capita penetration of 16.5 square feet per person versus 23.6 square feet per person for our neighbours south of the border. That means retail stores have less competition for consumers in Canada than in the U.S.

The major reason why Smart REIT has been hit so hard is that Canadians are just as afraid as Americans when it comes to the rise of e-commerce and the death of the shopping mall. Canadian malls are still alive and well, so don't expect a surge of closing stores anytime soon.

Solid Q2 results with rising occupancy rates

Although Smart REIT saw revenues drop over 8%, net income grew over 61%, and the occupancy rate has actually improved on a year-over-year basis from 98.2% to 98.4%.

Why is the occupancy rate rising?

Smart REIT has a very solid portfolio of high-quality tenants across many industries which are unlikely to go belly up because of the rise of digital retailers.

Industries include groceries, home improvement, banks, fitness centres, fast-food restaurants, dine-in restaurants, insurance providers, movie theatres, toy stores, dollar stores, hair salons, and more.

Sure, there are some stores that may be more vulnerable to the rise of e-commerce, but on the whole, Smart REIT has a solid portfolio of tenants that will continue to drive people to its malls over the long term. You can’t order a haircut and a workout online, after all.

Bottom line

The fears of the death of the shopping mall are blown way out of proportion, and opportunistic investors can use this to their advantage by picking up shares of Smart REIT on the way down and adding it to their TFSAs.

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Date
2025/08/26
Date Created
2017/08/14
Author
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