Top Up Your Monthly Income With This Smart High Yielder

Description

If you depend on your investments for monthly income, it may be tempting to give yourself an instant raise by ditching your lower-yielding securities for one with a higher yield. REITs are typically known for their high yields and lower-than-average risk profiles; however, grabbing the highest-yielding REIT probably isn't the best strategy for the long haul, even if your instant raise is sustainable.

REITs, like stocks, require investors to consider the underlying business (or trust) and the capabilities of the underlying management team. A falling REIT is just as bad as a falling knife, and although REIT distributions may be, on average, safer than stocks with the same yield, it's worth remembering that REITs can also fall by a huge amount, leaving income investors vulnerable to capital losses.

Moreover, just because many believe REITs are a "safe" investment doesn't mean they're immune to distribution cuts or +50% losses. In fact, there are many REITs out there that are as risky, if not riskier, than stocks. As such, significant due diligence is still required on the part of the investor to ensure that the short-term raise doesn't substantially elevate the amount of risk being introduced to the income investor's portfolio.

SmartCentres Real Estate Investment Trst (TSX:SRU.UN) is a prime example of a REIT that can give income investors a raise without the added risk. In fact, at this point, I believe fears over the "death of the shopping mall" are so overblown that shares have an implied margin of safety and could be due for a bounce to higher levels over the next three years, as more attention is drawn to the revamped management team and its focus on the development of residential properties.

SmartCentres expects to spend ~$3 billion on new development projects over the next five years. Over the next decade, management hopes for its rental business to account for ~15% for its net operating income (NOI) in a decade.

In the near term, SmartCentres remains primarily a play on strip malls and brick-and-mortar stores. If you don't buy the death of the shopping mall in Canada, SmartCentres is a fantastic bet thanks to its **Wal-Mart Inc.** anchor, which continues to be a driver of traffic.

Further, SmartCentre REIT's smaller size versus its diversified peers serves as an advantage, as it allows the trust to be more agile when it comes to adapting and diversifying into more favourable real estate sub-industries as trends change with time.

Over the next few decades and beyond, SmartCentres will aggressively gravitate towards residential properties, but in the meantime, SmartCentres is a retail REIT with very high-quality retail tenants, most of which will be around for decades in spite of the rise of e-commerce.

Management expects FFO growth to expand from 4-5% over the near term to more than 10% down the road after various residential developments have been completed. The general public seems to be overly focused on the current state of retail and not on future growth opportunities that can be realized over the long term by residential developments.

At the time of writing, shares yield 6% and are down 26% from all-time highs thanks in part to excessive pessimism when it comes to retail-focused REITs. I think these fears are overblown and aren’t considering the company’s long-term plans to diversify into residential properties.

With new leadership, a compelling plan for FFO growth, and a robust retail REIT operation, SmartCentres is one of the lowest-risk ways to give yourself a raise without surrendering long-term growth in a rising interest rate environment.

In terms of long-term capital appreciation and distribution growth, I think SmartCentres looks better-positioned than many of its larger diversified peers in the REIT space.

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