This Monthly Income Play Doesn’t Get the Respect it Deserves!

Description

Sometimes the general public just gets it wrong.

That’s where real money can be made though, especially if you’re a value investor with conviction and the discipline to hang on for the long haul as sentiment gradually begins to shift for the better.

Consider **SmartCentres Real Estate Investment Trst** (TSX:SRU.UN), the owner of strip malls and shopping centres that are anchored by the ridiculously robust **Walmart Inc.** (NYSE:WMT) stores. The bear thesis is just as you’d expect: avoid everything retail!

I think the retail fears are way overblown, and income investors who seek long-term appreciation will do very well with the stock in their high-payout portfolios.

Why?

There’s no evidence that shopping malls are dead given that occupancy rates are hovering around the 98% level. That’s a healthy level of occupancy, and it’s not at all indicative of the doom and gloom story of late.

Former CEO Huw Thomas stepped down from the helm this June, but the company is still in growth mode as it looks to shift its focus from retail and into the residential real estate space with various single-family, condominium projects that will be developed over the foreseeable future.

A new — and promising — growth trajectory

I don’t know about you, but SmartCentres may be channelling **Howard Hughes Corporation** (NYSE:HHC) with its plans for developing mixed-use properties. The future is going to be exponentially more urbanized, and SmartCentres is looking to create planned communities, not just for residing, but also for hanging out. A beautiful new apartment is only as valuable as the nearby amenities, after all.

Consider the PwC-YMCA Tower that’s being designed by SmartCentres and Mitchell Goldhar. The 236,000 square foot tower will provide office space for PwC Canada, housing a 20,000 square foot public library, a 10,000 square foot community space, 3,000 square feet of retail space and a 100,000 square foot YMCA.

It’s urban development projects like this that will allow SmartCentres to play the role of the user in SimCity. It’s not just about residential or retail; it’s about concocting the perfect formula for a lively community, leaving tenants on both sides happier and less likely to vacate.

I believe the general public is severely discounting the new growth direction that SmartCentres is headed. SmartCentres is still a retail-heavy play and will continue to be over the near future, but given the robustness of the Canadian retail scene and the potential for higher ROEs from the development of mixed-use spaces, I think SmartCentres is an absolute bargain with its fat 5.8% yield.

Typically, REITs don’t hike their distributions at the same rate that that of stocks. You’d be hard-pressed to obtain meaningful distribution growth over a prolonged period, but given SmartCentre’s attractive new growth plan, I think SmartCentres could deliver a much higher magnitude of distribution hikes relative to its much larger peers.

Moreover, SmartCentres is a smaller organization compared to some of the already diversified Canadian behemoths out there, so I suspect a profoundly greater degree of reward relative to the risks taken on.

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