A Smart High-Income REIT I'm Considering Buying in March

Description

With a bountiful 5.4% distribution yield, **SmartCentres REIT** (TSX:SRU.UN) is a reliable income payer (and grower) that's been overlooked by most income investors.

As you may have noticed, the retail REIT sub-industry is as unattractive as the stocks of brick-and-mortar retailers themselves. While the big-box department stores are on their way out due to the rise of their disruptive e-commerce counterparts, there's little evidence that's suggestive that Canada is experiencing the slow and steady "death of the shopping mall."

Yes, SmartCentres owns and operates strip malls, which may seem like it'll become a relic of the past in a few short decades. And although it's easy to write-off the trust due to its industry, value-conscious income investors would be remiss not to consider SmartCentre's long-term growth profile, which I believe has been severely discounted by investors and the few analysts who cover the name.

While retail shopping centres may seem like a dead-end growth strategy, as many investors picture tumbleweeds floating around in the shopping malls as customers take their business online, most Canadians are unaware that SmartCentre has an ambitious long-term plan to blend the best of both commercial retail and residential real estate in the form of a "master-planned community."

In such "master-planned communities" the retail and residential properties are strategically positioned such that tenants of such properties can form a mutually beneficial relationship with one another. Families staying at residential properties are able to enjoy the convenience of having grocers, cafés, gift shops in close proximity, while establishments leasing the commercial properties will be able to enjoy the business of the locals who are likely to become regular customers.

You see, SmartCentres isn't just planning to change real estate sub-industries. Instead, the trust has identified the next big growth opportunity and the diversification away from retail is just a desired after effect. When it comes to real estate, the value is all about location, location, location.

Through the eyes of a retailer, the amount of rent you'll be willing to pay is proportional to the magnitude of prospective customers in the area — similarly, many residential tenants value nearby conveniences when they're looking to rent out a place.

Foolish takeaway

"In a decade from now, SmartCentres will reinvent itself as a builder of communities, not just shopping centres, and that makes me a raging bull," I said back on August 2 of last year when shares were worth $30 and change.

Today, shares are picking up traction, and while there's less yield, I still think the security is severely undervalued, especially for those with a time horizon beyond five years.

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