A Top REIT to Buy Before July Ends

Description

You don't need to invest in ridiculously volatile securities to do well in the markets over time.

While you hear the "high-risk, high-reward" phrase all the time from financial advisors, the rule doesn't always apply when it comes to alternative asset classes like REITs, which are not only less volatile (on average) than equities, but they can produce returns that are comparable, if not better.

So, whether you're a retiree who's looking for security and passive income or a young investor who's looking maximize their Sharpe Ratio, a metric used to gauge a portfolio's risk-adjusted returns, it's usually a good idea to consider REITs, especially those that are trading at considerable discounts to their intrinsic value.

A compelling bargain in the REIT space today is the Canadian retail kingpin **SmartCentres REIT** (TSX:SRU.UN), whose shares are still down around 15% from its 2016 highs.

At the time of writing, the REIT yields 5.4%, which is bountiful, but not that remarkable when you consider there are +8%-yielding REITs out there that aren't at risk of a distribution reduction. What makes SmartCentres attractive is the fact that it's a relatively agile REIT with a market cap south of $5 billion with a smart management team and a long-term growth plan that I believe blows most other low-growth REITs out of the water.

In prior pieces, I've emphasized the importance of evaluating the growth (and distribution growth) potential of a REIT, not just the upfront yield that you'll lock in immediately.

As you may know, REITs aren't the "growthiest" investments in the world, and that's by design. An overwhelming chunk of cash flows need to go back into the pockets of investors, and with payout requirements that dampen growth relative to publicly traded non-REIT companies, it's tough to grow a distribution at the same frequency or magnitude as your run-of-the-mill dividend stock.

Where SmartCentres REIT shines is its plan to transform into more of a mixed-use property REIT over time. Brick-and-mortar retail isn't exactly a real estate sub-industry where you'd expect that rents would increase dramatically. As e-commerce continues to take off, physical retail is going to continue to feel the heat, and although SmartCentres hasn't suffered vacancies across the board yet, management knows that it has to diversify itself to unlock the most value for its long-term shareholders.

Today, when you think of SmartCentres, you likely think of strip malls, but in a decade from now, you'll think of planned communities that offer a symbiosis of residential and retail properties. This symbiosis will allow SmartCentres to command higher rents and AFFO growth to support generous distribution hikes over the next decade and beyond.

Given SmartCentre's long-term growth plan and the fact that a majority (over 70%) of SmartCentres locations are anchored by **Wal-Mart** stores, I'd say there's nothing to fear with the retail REIT but fear itself. There's ample growth to be had, and I don't see vacancy rates roaring anytime soon with its robust tenant base.

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