Value Investors: It's a Generational Buying Opportunity for These 3 Cheap REITs

Description

I just can't believe how much the real estate investment trust (REIT) sector has been pulverized during this downturn. The market is filled with ridiculously cheap REITs.

I'm the first to admit business doesn't look good in the near term. Many tenants will need rent concessions to avoid bankruptcy — a fate that will obviously have some impact on their landlords. Mortgage payments, meanwhile, will be forced to continue. We just don't know if these REITs will be able to survive the cash crunch.

However, I think investors can help maximize their chances by sticking to REITs with large exposure to great tenants.

If these cheap REITs can make it through this crisis unscathed, they're a screaming buy for the next five to 10 years. I like their chances, which is why I've added to previous positions in all three. Let's take a closer look.

Crombie REIT

Let's start with the company I think has the lowest risk of most any retail REIT: **Crombie REIT** (TSX:CRR.UN). Shares have fallen some 40% in a little over a month, despite this cheap REIT getting approximately 60% of its rent from Sobeys and Safeway stores. This rent is secure, especially considering how busy supermarkets have been in the last week.

Crombie is also in the midst of diversifying its portfolio away from a pure play on retail real estate. It has recently acquired office space and industrial property used by its main tenant for back office support and warehousing. And the company is in the middle of an ambitious development program that will turn some of its urban real estate into mixed-use properties — locations with a grocery store on the bottom and apartments on top. It has already completed one project in Vancouver and has others in various stages of progress in places like Montreal, Langford, and Oakville.

Crombie trades at less than 10 times trailing funds from operations, and shares currently pay an 8.9%

yield.

SmartCentres

Another one of Canada's cheap REITs is **SmartCentres REIT** (TSX:SRU.UN), another company with a solid long-term contract with a retailer that is killing it right now. Approximately 30% of the company's rents come from **Walmart**, which is about as safe as you can get right now.

Perhaps the reason why the stock is down some 50% over the last few months is because investors are nervous about the company's development portfolio. But funding for these projects is already secured, and the company is still confident they'll be completed on time. These new builds — which include assets like office space, residential, self storage, and seniors living — are expected to help the company diversify away from retail as well as grow the bottom line.

Perhaps the best reason to consider this cheap REIT for your portfolio is this: Executive Chairman Mitchell Goldhar has been buying like crazy. On March 13 alone, he picked up 45,000 shares, adding to regular purchases he had made for a couple weeks prior. If you act soon, you can lock in a better price; he paid over $22 per share, while the stock trades hands at $19 as I type this.

Slate Retail REIT

Slate Retail REIT (TSX:SRT.UN) is another cheap REIT that has significant grocery store exposure. Shares have been cut in half over the last few weeks, despite most of its rent coming from supermarkets and other essential services like drug stores and medical centres.

Currently, Slate's U.S. dollar-denominated shares trade hands at $4.40 each. The company earned US$1.20 per share in funds from operations in 2019. That's right; this cheap REIT trades hands at less than four times earnings. It's also done wonders for the dividend yield. The payout is an eye-popping 19%, and the trailing payout ratio is just 72%. As long as earnings don't fall off a cliff, it's a sustainable payout.

That's what investors fear will happen, but I'm not so sure. Approximately 50% of total rents come from grocery, drug, liquor, and dollar stores. These will be fine. The other half is a little dicier, but various relief programs should really help.

One important thing to note is Slate has taken advantage of the chaos by making an acquisition, spending just over US$100 million to buy seven grocery-anchored properties. This deal should boost the bottom line in 2020.

CATEGORY

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TICKERS GLOBAL

1. TSX:CRR.UN (Crombie Real Estate Investment Trust)
2. TSX:SGR.UN (Slate Retail REIT)

3. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)

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