Income Investors: How to Pick the Right REIT

Description

Recession worries and social-distancing measures are expected to wreak havoc on the balance sheets of many names in the REIT space. As of writing, the S&P/TSX Capped REIT Index is down over 35% from its highs, with hotel and mall operators taking the brunt of the selling. However, even in this sea of red, there are some promising bargains to be had.

Avoid hotels…

Hotel occupancy rates have plummeted, as tourism and travel grind to a halt. According to Smith Travel Research, hotel occupancy in the U.S. has plummeted 56% year over year to 30.3% nationwide. Average daily rates have also fallen in the same time span, to $93.41 per room, down from $134, while revenues from available rooms (RevPAR) are down 70%, over the same time frame. These declines in RevPAR are so unprecedented, in fact, that they've surpassed the lows set after 9/11 and the 2008 financial crisis.

…and retail

Retail is not faring much better. Data from OpenTable show that restaurant reservations have fallen off a cliff, with 100% declines in reservations across all the major markets the site operates in. Shopping malls and brick-and-mortar stores, which have long been experiencing slowing foot traffic, are closing en masse across Canada as part of widespread social-distancing measures. Even before the outbreak of the coronavirus, 2020 had already claimed its share retail victims, such as **Pier 1 Imports**, which filed for bankruptcy in February.

It's all about liquidity

It goes without saying that expectations must be tempered, and investors should not expect much growth from any REIT name in the next few months. The coming days are going to be all about survival, and the REITs with the least amount of debt and near-term mortgage maturities on the balance sheet, large amounts of unencumbered assets, which can be sold off to raise cash, and available credit facilities will be the only ones left standing with their dividends intact.

Stick to pure plays

I've never been a fan of the diversified REITs, as the laggards in the portfolio tend to drag down the leaders. Furthermore, liquidity commitments for diversified names can be quite cumbersome due to the diverse array of projects the REIT must undertake to propel growth. Alternatively, I like pure-play names due to the specialized expertise of the management in their sectors and the more concentrated exposure, which is then diversified across a larger geographic footprint.

Based on these criteria, a great defensive play would be **Canadian Apartment Properties REIT** (TSX:CAR.UN), which happens to be our largest multi-family operator with a geographically expansive portfolio across Canada, the Netherlands, and Ireland. For fiscal year 2019, CAPREIT reported strong operating metrics, which included overall occupancy of 98.2%. More importantly, CAPREIT's near-term mortgage maturities are only around $300 million when combined with a debt-to-gross-book-value ratio of 35% and cash plus undrawn credit facilities of $623.5 million, which ensures it has ample liquidity. Note also that 98.3% of CAPREIT's mortgages are backed by the CMHC, which means that lenders will be readily available to refinance the REIT's mortgages as needed.

The bottom line

Not all REITs are equal and given that we could be in for protracted downturn, it pays to be picky when it comes to this sector. Given, the recent selling, all REITs appear to be cheap, but only a few present actual value. One such name is CAPREIT.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:CAR.UN (Canadian Apartment Properties Real Estate Investment Trust)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Tags

1. Editor's Choice

Date
2025/08/25
Date Created
2020/03/27
Author
vmatsepudra