Stock Market Crash: Time to Buy Hotel REITs

Description

Share prices may have strayed far from underling asset values for most companies as fear griped investors during the COVID-19 pandemic induced stock market crash. The price one pays for owning premium hotel properties today is much lower than the value one could get from holding them over the next few years.

Fire-sales have occurred on some fundamentally strong companies on the **TSX** since late February. Shares in companies that hold hard assets and non-movable properties haven't been spared. However, their assets' long-term values may not have fallen by as much as the unit price plunge may lead us to believe today.

Market confidence has fallen too low on anything equity-related recently, and lucrative buying opportunities have emerged.

Historically, pandemics aren't permanent, and recessions usually recover. Stock market crashes are usually short-lived relative to bull markets. Some of today's buying opportunities could afford one the opportunity to retire rich.

Billionaire Baron Rothschild once advised investors to buy stocks when there's blood in the streets, "Even if the blood is your own." Beaten-down hotel operator stocks are deeply soaked in blood right now, and this could be the best time to buy hotel real estate investment trusts (REITs).

Hotel REIT performance during stock market crash

Hotel room occupancy levels have declined, and they did so very fast as travel restrictions and total community lockdowns take place globally due to the coronavirus pandemic. Hotel operators look distressed. Some hotel stocks plunged nearly 90% in three weeks since late February.

This is understandable given that hotel service is a cyclical business that booms and grows with the economy and individuals' prosperity. It sneezes with the economy during recession colds too.

The hotel industry is overexposed to market cycles. It doesn't enjoy the safety of long-term leases like other real estate investors. Occupancy levels can decline very fast. Room booking rates usually fall significantly as operators compete for fewer and far between customers during economic crisis times.

Best time to buy?

Hotel assets aren't necessarily destroyed, and neither do they get sold-off during times of short-term stock market crashes. Rather, owners retain and maintain them for their future cash flow generating capacity. This is where most of their long-term value is derived from.

Most noteworthy, if a hotel properties holder is incorporated as a REIT, it's required to pay a majority of its income to investors every year to retain its income-tax-exempt status.

I expect hotel REITs to go back to to paying juicy distribution yields once business conditions return to normal.

Beaten-down **American Hotel Income Properties REIT** suspended its distribution on March 20 to preserve cash flow, and industry peer **Ryman Hospitality Properties** did the same. Once AHIP's distribution gets reinstated in full, the monthly pay check could yield over 30% annually.

Both REIT names rallied by about 100% when some hope returned to the markets as news of historical economic stimulus packages trickled from North American central banks. The capital gains could be massive, and the income yields could be unbelievable when this crisis is over.

This could be the best time to deploy some cash on such beaten=down hard asset owners. The recovery gains after a 2020 stock market crash could just be phenomenal over the next five years!

Foolish bottom line

The COVID-19 pandemic and the 2020 recession will potentially be in the history books in five years' time. But I'll bet that hotel REITs will be back to paying hefty annual distribution yields by then.

I wouldn't pass up on a great opportunity for buying units during their weakest valuations today.

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brianparadza