



## 1 Beaten-Down REIT Bargain for April

### Description

I wouldn't want to pass up on [great opportunities for buying high-quality beaten-down real estate](#) assets during their weakest valuations. Such opportunities seldom come by, but they are available right now for investors willing to buy stocks in April 2020.

The stock market crash of 2020 presents long-term investors with some lucrative buying opportunities of a lifetime right now. One such high return opportunity lies on a beaten-down real estate investment trust (REIT) whose opportunity I wish to discuss today.

### American Hotel Income Properties REIT (AHIP)

**American Hotel Income Properties REIT** ([TSX:HOT.UN](#)) owns a recently refocused portfolio of 79 premium branded hotel properties located across the United States. A significant number of the properties were recently renovated. Room furnishings were modernized too to add a fresh appeal to customers.

AHIP's franchise agreements with internationally recognised brands, including Marriott, Hilton, and IHG allow it to better compete in the luxury hotel industry, and the company has hired competent managers highly experienced in running premium-branded hotel outlets.

The trust saw customer bookings dwindle fast in March due to community lockdowns, restrictions on international travel and observance social distancing requirements as the world battles a ravaging COVID-19 pandemic. Its hotel managers quickly adopted aggressive cost-cutting measures to reduce expenses.

### A temporarily suspended juicy distribution

The trust's management acted proactively in March to preserve AHIP's balance sheet when its income statement faced a serious threat. It deferred capital expenditures budgeted for 2020 to next year to preserve cash flow "... in anticipation of further volume declines over the coming months."

Additionally, the trust's US\$0.038 per unit monthly distribution to investors was suspended on March 20.

Distributions payouts will be reinstated when economic conditions improve. Given that REITs are mandated to pay out a majority of their income to investors to maintain their income-tax-exempt status, trustees will most likely reinstate distributions without delay.

The old distribution would yield about 30% annually at today's beaten-down unit prices.

## A beaten-down Canadian REIT

Like similarly affected hotel stocks, AHIP units got clobbered since late February. The unit price fell more than 84% in March from peak valuations in February as fear gripped stock market traders.

Investors are willing to pay just over 25% of the REIT units' net book value today. Given that Canadian real estate owners report asset book values at fair values, there's a potential 75% discount on this premium hotel owner's net assets today.

Does this imply that AHIP's assets are so impaired today that they require a 75% discount to their prior pandemic fair values?

As a long-term focused investor, I don't personally believe so.

Market prices today might reflect trader fear and a market shock more than any rational consideration for the future cash flow generation potential of real estate investment assets. The long-term value of the trust's real estate might not have fallen as much as the market prices on its equity units implies today.

I would be a buyer at the current "fire-sale" prices if they continue to hold in April. The potential capital gains post the pandemic a 2020 recession are just too big to pass up.

## Foolish takeaway

Perhaps it's time to buy beaten-down AHIP units today. They offer potentially massive capital gains and a chance to lock in nearly 30% in distribution yields when the economy gets up again in the next few years.

That said, uncertainty still remains on how long the pandemic will go on, and how long the U.S. economy will take to recover. Investors should therefore exercise some caution.

### CATEGORY

1. Dividend Stocks

2. Investing

## TICKERS GLOBAL

1. TSX:HOT.UN (American Hotel Income Properties REIT LP)

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1. Business Insider
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