A Canadian REIT That Income Investors Should Buy Right Now

Description

Canadian REITs, telecoms, utilities, gold miners, and other bond proxies sold off violently in the market crash caused by COVID-19 shutdowns. Heck, even "risk-free" assets like bond funds nosedived as liquidity suddenly dried up.

It's a smart idea to be invested in alternative income-paying assets like REITs. But we found out last month that only cash is king when there's a cash crunch.

What I thought was most remarkable about the last month of turmoil was that many Canadian REITs took the brunt of the damage. The share prices of some were slashed by more than half. It was excessive, to say the least. There's now a rare opportunity to pay half the price for double (or more) the yield, if you're one of many smart income investors with ample cash on the sidelines.

For retirees and other investors with sufficient liquidity, it's a generational opportunity that should be seized sooner rather than later. There's no telling when Canadian REITs will correct to the upside.

This REIT stood out to me as being absurdly oversold and severely undervalued.

A Canadian REIT that's misunderstood by investors

Consider **SmartCentres REIT** (TSX:SRU.UN), a high-income REIT that now sports a yield of 10%. No, that's not a typo, and yes, the distribution is a lot safer than meets the eye.

The coronavirus pandemic has led many to believe that shopping malls have suddenly turned into deserted wastelands. This may be the case while Canadians embrace social-distancing practices to slow the spread of the highly infectious coronavirus. But Canadian REITs focused on retail will rise again after the dust settles.

When the pandemic passes, there may even be pent-up demand to go shopping, get a haircut, watch a movie, check out the local **Canadian Tire**, and so on. So, don't think that the pandemic-induced reduction in retail traffic is the start of a secular trend. Retail is alive and well in Canada, and I suspect it'll remain this way when things finally normalize.

Moreover, as I noted in a prior piece, retail REITs will likely have less of a hassle collecting rents during the crisis compared to residential REITs. There will be higher overhead costs involved in chasing tens of thousands of residential tenants than a handful of retail tenants that still have robust balance sheets.

Foolish takeaway

The way I see it, when the rent is due, I'd rather be in a retail-focused Canadian REIT like **SmartCentres**, which has resilient tenants that are more likely able to absorb the financial blow of COVID-19.

Residential REITs will need to find arrangements with each residential tenant that can't make rent for the month. That's a lot of deferred rent, as well as a considerable overhead cost that many may be underestimating.

What's most staggering is that many residential REITs have held their own better than retail REITs like SmartCentres. That leads me to believe that SmartCentres is one of the best plays that Canadian REITs have to offer today.

Stay hungry. Stay Foolish.

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