Are These Top 2 REITs the Worst Investments in a Pandemic?

Description

Real estate investment trusts (REITS) owning and operating malls, hotels, offices, and other related properties are feeling the heat. With the closure of the properties to contain the spread of the coronavirus, a cash flow drought is inevitable. Merchants or tenants could be seeking rental reprieves at this time.

The financial challenge of REITs is whether to continue paying the regular cash dividends or delay them. The impact of the pandemic is growing deeper that top REITs **RioCan** (TSX:REI-UN) and **Canadian Apartment Properties** (TSX:CAR-UN) or CAPREIT are losing appeal as sound investments.

National tenants

RioCan is one of the formidable REITs in the sector and among the real estate stocks you can own for the long haul. The stock price, however, is down to $16.06 per share and the year-to-date loss is 39.33%. RioCan's market capitalization stands at $5.1 billion, while the dividend yield is an attractive 8.95%.

This REIT caters to retailers in over 200 locations across Canada. The properties are located in areas that will see urban and suburban growth. Its total gross leasable area is 38.4 million square feet. The high 97.2% occupancy rate delivers 84.1% to total revenue.

The tenant base includes some of the biggest names like Bank of Montreal, Royal Bank of Canada, Loblaw, Metro, and Walmart, among others. Still, RioCan could be at risk to lease defaults, delayed rent, and higher vacancy rates due to the health crisis. Property values could also fall if the lockdowns extend for months.

Premium housing

CAPREIT is one of the largest apartment REITs in Canada that is maintaining a growth-focused portfolio. Aside from having a diversified portfolio in the home country, CAPREIT has rental properties in Ireland and the Netherlands.

In 2019, this $7.15 billion REIT had a strong operational and financial performance. The 98.2% overall portfolio occupancy delivered $508.1 million in net rental income, 15.34% better than in 2018. The normalized funds from operations (NFFO) increased by 17.2% to $339.1 million.

According to CAPREIT President and CEO Mark Kenney, 2019 was another record year because of accretive portfolio growth supported by effective property management programs. The financial position is likewise strong due to reduced leverage ratios.

As of year-end 2019, CAPREIT has about $447.3 million in cash and cash equivalent. In case the REIT needs liquidity, it can draw from its $146.2 available credit facility. Before the pandemic, management is anticipating continued the growth and strong operating performance of CAPREIT.

CAPREIT is in the same boat as RioCan. The market selloff has brought down the stock price to $42.13 per share, while it was once $61.25 in early March 2020. The current dividend yield is 3.28%.

A gamble

Both RioCan and CAPREIT have grandiose plans in 2020, though everything is on hold due to COVID-19. Also, it’s been barely a month when Canada closed its borders to the outside world except for essential traffic from the U.S. The wave of unemployment can impact REITs whose services would be affected by the stay-at-home directives.

While housing or apartment rentals are safe, cash flow will be tight if tenants are financially distressed. The situation is fluid, and investing in top REITs like RioCan and CAPREIT is a gamble while the epidemic is around.

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