The Coronavirus Market Crash Is Shredding This Asset Class

Description

As governments worldwide scramble to flatten the curve of COVID-19's spread, the coronavirus market crash rumbles on. The markets have broiled with volatility these last few weeks. Catastrophic plunges have been followed by meteoric rallies. But we're not out of the woods yet. Let's see how the market crash is already breaking with the norms of a downturn.

Retail-heavy REITs like **Brookfield Property REIT** have been plummeting more than 50% during the market crash. Hotel REITs have fared a little better, with losses performing around 10% better than their mall-weighted counterparts.

Retail and hospitality have always been touch-and-go, subject to fluctuations in consumer sentiment. Meanwhile, less cyclical apartment REITs have performed solidly in better times.

Tenant quality has long been one of the most concerning risks of REIT investment. Today, both commercial and residential tenants are struggling. The coronavirus market crash isn't done yet, despite this week's rally.

The knock-on effects of the pandemic will have a lasting impact on every area of the economy. Retail REITs are increasingly risky as the coronavirus keeps retail shuttered for the foreseeable future.

The coronavirus market crash is crushing REITs

Canadian Apartment Properties REIT (TSX:CAR.UN), also known as CAPREIT, has lost 30% in the last month. It's easy to see a hierarchy of risk in REITs from the coronavirus market crash. CAPREIT, being an apartment REIT, occupies the lowest tier of risk.

But that 30% plunge is still nothing short of calamitous. The question remains: Is CAPREIT a smart play on value for long-term dividend potential?

Investors getting into REITs for the yield should manage their expectations. Dividends could very well be slashed if the coronavirus market crash abides. Indeed, the situation looks untenable with some names hitting 10% and beyond.

If investors are seeking real estate trusts for passive income safety, they may have to start looking elsewhere. Even apartment REITs like CAPREIT are becoming a gamble.

Rallies may be coming too early on false hope. For one thing, the coronavirus peak won't happen everywhere uniformly. For another, as Prime Minister Justin Trudeau pointed out, the current situation could last weeks or months. Dr. Anthony Fauci has raised the prospect of a spike in cases come fall. A vaccine, meanwhile, could be 12 to 18 months in the making.

The North American coronavirus market crash could already constitute a recession. Ben Bernanke is dubious about comparisons to the Great Depression. He doesn't see a V-shaped recovery, and predicts a bad year ahead.

It might therefore be reasonable to assume that the market doesn't support the high yields of REITs. A long-term safe dividend investment strategy could involve buying more defensive assets, such as utilities and consumer staples.

The bottom line

There's a strong thesis right now for buying oversold assets. Contrarians bullish on an eventual recovery and with wide financial horizons have some options. Buying into REITs for dividend safety isn't a strong play right now.

Utilities-based Dividend Aristocrats are a far safer option. However, there is a clear value opportunity for the long-term investor seeking beaten-up quality in names like CAPREIT.

CATEGORY

1. Coronavirus
2. Dividend Stocks
3. Investing
4. Stocks for Beginners

POST TAG

1. coronavirus
2. market crash
3. REITs

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. Coronavirus
2. Dividend Stocks
3. Investing
4. Stocks for Beginners

Tags

1. coronavirus
2. market crash
3. REITs

Date
2025/08/16
Date Created
2020/04/08
Author
vhetherington