2 Top REITs Reach a Critical Point as a Rent Strike Looms in May

Description

Landlords won't be too happy in May, as the month could be the start of rent strikes. In the ongoing crisis, many tenants with closed businesses will have no income or means to make rental payments. The government might have to step in with rental subsidies for affected tenants.

Carnage is looming for real estate investment trusts (REITs) such as **RioCan** (TSX:REI.UN) and **Choice Properties** (TSX:CHP.UN). These two top landlords have begun offering 60-day rent deferrals and automatic deferrals to other tenants. The sacrifice could be more if the lockdown persists for a few more months.

Flashpoint expense

Rental payments during the pandemic are now flashpoint expenses to business owners. The restaurant and retail industries are practically non-operational, as the country curbs the spread of COVID-19. A rent strike will hurt RioCan and Choice Properties should the gathering storm materialize.

Landlords have been receiving letters and notices from tenants advising of non-payment of rent. Rent payments are inescapable, but how can tenants afford to pay when there is no income?

Greater volatility

RioCan is one of the largest REITs in Canada with a market capitalization of $5.28 billion as of April 17, 2020. This REIT leases about 220 properties in prime, high-density, transit-oriented areas across the country. The portfolio consists of mixed-use properties, but several tenants are retail-focused.

Having high exposure to the retail space will impact on rental revenue. RioCan is expecting to lose 25% of revenue in the next 60 days because of business closures. Cinema operator **Cineplex** counts as among the major tenants, along with **Loblaw**. The latter's business is safer since it's a necessity-based retailer.

The weak spot is now showing for RioCan, which was once regarded as a haven for income investors. As of this writing, this REIT is down 36.8% year to date on the stock market. Management is hoping the pandemic will end soon, so customers can return to restaurants, cinemas, and gyms. For now, RioCan's lustre is gone.

Strong but not safe

Choice Properties is also not exempt from the brewing rental woes. The stock performance of this $4.15 billion REIT, however, is better than RioCan's. Choice Properties's year-to-date loss is only 2.4%.

There are 726 properties in the portfolio and 576, or 79%, are retail. Loblaw is the anchor tenant. Its partnership with Canada's largest food retailer is an advantage. Unlike discretionary retail businesses like restaurants and cinemas, Loblaw's grocery and drug stores are open for business.

Industrial properties comprise 15.6% (113) of the total portfolio. The businesses in this sector should do well in the long term. Tenants catering to e-commerce and logistics are benefiting from the stay-at-home directives.

The coronavirus outbreak is a major headwind, and a rent strike is something unheard of. Choice Properties must be bracing for the negative impact if there is no virus containment in the coming months. Investors are nervous that Choice Properties will also lose its appeal as an investment option.

Developing contagion

REITs or major landlords like RioCan and Choice Properties are in tight spots. Everyone thought both were safe investments, but nobody could predict a crisis like COVID-19.

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