Which Top TSX REIT Is a Safer Pick?

Description

Stocks have been bouncing around recently, and REITs have been no exception. While some TSX REITs offer insane yields at the moment, they also carry additional risk.

With so much uncertainty in the economy, rent strikes and deferrals are starting to become reality. So, before any investor dives into a REIT, they must consider the cash flow capabilities in the near term.

Now, not all REITs will be impacted equally, since the safety of the cash flow is going to come down to the type of tenants in place. Obviously, any business that's been closed due to the pandemic is going to have a tough time making rent. Meanwhile, a tenant deemed to be essential will still be operating and may be able to make rent on time.

Today, we'll take a look at two top TSX REITs and see which one might be a safer pick for the time being.

H&R REIT

H&R REIT (TSX:HR.UN) is a large commercial REIT operating in Canada and is the third largest in the country by market cap.

It owns over 41 million square feet of property across North America. However, most of that is office and retail space.

Right now, those two sectors are getting hit hard as non-essential businesses are closed for the time being. As such, cash flows for H&R could be in peril.

To reflect this risk, H&R's share price has taken a drastic nosedive. It currently trades at $9.20, while it traded at $20.56 as recently as March 4.

Due to the massive drop off in price, this TSX REIT is now yielding an unbelievable 14.98%. However, it's important for investors to avoid this potential yield trap, as it's highly unlikely that yield can be sustained given current conditions.

Besides the looming rent-deferral risks, the current payout ratio for H&R is also simply too high at 116.01%. For now, H&R seems to be in for too much of a bumpy ride to entice investors.

Choice Properties

Choice Properties REIT (TSX:CHP.UN) is the largest REIT in Canada by market cap, with a total enterprise value exceeding $16 billion.

While Choice has dipped its toes into residential and office holdings, its main source of cash flow, retail, is what makes it a safe pick.

Now, that might seem contradictory, as we just talked about how retail is in peril right now. However, Choice's retail properties are almost entirely made up of **Loblaw** locations.

As an essential business, Loblaw is staying open and experiencing consistent demand through these tough times. As such, it should not be in danger of missing a tonne of rent payments. We know the same can't be said for most retail stores.

As of writing, Choice is trading at $12.61 and yielding 5.87%. It's important to note it was trading at $14.50 on March 4. So, its fall has not been nearly as drastic as H&R's.

This is probably due to the fact that Choice is anchored by such a solid tenant that accounts for the vast majority of its revenue.

TSX REIT strategy

For investors looking at TSX REITs, H&R and Choice are two of the biggest names in the Canadian market.

However, while H&R seems to be in a precarious position, Choice is firmly entrenched as a market leader due to its strategic relationship with Loblaw.

For investors seeking passive income, Choice seems to be the safer pick while still offering a solid 5.87% yield.

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