3 REITs Hit the Worst by the COVID-19 Pandemic in April

Description

Real estate investment trusts (REITs) with portfolios that have short-term leases are usually the worst-hit landlords during economic recessions. However, travel restrictions during the COVID-19 pandemic have been brutal to some Canadian REITs, especially those with pre-existing poor financial conditions.

Here are three of the worst-hit Canadian real estate operators so far in April.

American Hotel Income Properties REIT (AHIP)

The COVID-19 pandemic couldn't have come at a worse time for **American Hotel Income Properties** (TSX:HOT.UN). AHIP had just completed the reconfiguration of its property portfolio after disposing of remaining economy hotels and buying premium-branded hotels.

The trust had an ongoing property-renovation and rebranding project that drained cash flow. The trust was just about to start recouping returns on investment from refurbished premium hotels.

I expected increased bookings and higher average revenue per hotel room after recent renovations and new furnishings. Unfortunately, much of AHIP's income is gone now. Cash flows have also taken a significant knock after nation-wide travel restrictions were announced.

Hotel managers responded by reducing staffing levels by 65%. Some hotels were shut, and operations were consolidated across other properties to preserve cash flow. Only 76% of AHIP's hotel properties were operational at reduced levels by April 8, primarily supported by government, military, medical, and logistical sector organizations.

The trust suspended its monthly distribution starting in April and promised to pay the March distribution by April 15. However, worse business conditions forced management to defer the previously declared March distribution.

"The payment will occur when business levels improve," management explained in a business update on April 8. I don't know when that will be, but insiders have faith. Executives and directors have since bought half a million AHIP units on the open market to take advantage of the rare discount on the premium properties.

Cominar REIT

Diversified real estate operator **Cominar Real Estate Investment Trust** (TSX:CUF.UN) withdrew its previous earnings guidance for 2020 on March 27. Management cited the growing economic and operating impact of the COVID-19 pandemic as the cause, especially its impact on the REIT's tenants and their ability to satisfy rental payments.

Cominar's retail mall assets were most at risk when provincial governments ordered the closure of all non-essential stores and services. Retail tenant rentals accounted for a significant 36% of the trust's revenue in 2019. Even worse, only 12% of the portfolio's revenue is from tenants considered essential services.

Investors expect the retail portfolio's shortcomings to be compensated for by the office and industrial property portfolios, but only 32% of office rent (17% of total revenue) is generated from government and government-related tenants.

Perhaps it's too early to state for sure how badly Cominar's total portfolio has been hit by the COVID-19 pandemic so far in April, as management's March 27th update hasn't been updated yet. However, the retail mall portfolio must have taken a significant knock this month.

RioCan

RioCan Real Estate Investment Trust (TSX:REI.UN) owns, manages, and develops retail-focused and mixed-use properties across Canada. Management is very confident that the trust's portfolio is well positioned to survive the COVID-19 challenge, but rental collection efforts faced significant challenges in April.

Three weeks into the month, the trust had collected only 66% of the portfolio's gross rent for April. About 17% of the portfolio's gross rent had been deferred by April 20 as tenants took RioCan's offer for deferrals. This is a significant hit to the REIT's cash flow.

That said, RioCan's mixed-use assets should help it weather the storm. Residential units and open-air spaces could continue to generate needed cash flow. Further, the retail portfolio is less than 10% composed of enclosed malls, which are the worst-affected assets. Low exposure to enclosed malls should help mitigate losses, while grocery-anchored shopping centres still serve some essential services providers.

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2. TSX:REI.UN (RioCan Real Estate Investment Trust)

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Date
2025/08/26
Date Created
2020/04/25
Author
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