How COVID-19 Affects Your REIT Stocks

Description

COVID-19 is negatively impacting REITs, or real estate investment trusts. The impact is worse on certain types of REITs than others.

On reviewing a recent update provided by **H&R REIT** (TSX:HR.UN), which is a diversified REIT, it sheds some light on the impact on different real estate asset classes.

Specifically, H&R REIT has interests in about 87 industrial properties, 35 office buildings, 24 residential properties, and 83 retail properties. Additionally, it also has nearly 34% interest in ECHO Realty LP, which consists of 226 properties, comprising office, multi-tenant retail, warehouse, grocery store, and convenience store assets.

April rent collection so far

On April 17, H&R REIT provided an update on the COVID 19 impact on its rental income. And it reported the rent it received from its tenants so far for the month. The REIT received rental income from 99.5% of its office tenancies, 94.5% from residential tenancies, and 91.9% from industrial tenancies, but only 56% from retail tenancies.

It doesn't come as a surprise that retail is taking the biggest hit from the COVID-19 situation. Grocery- and drug store-anchored locations are the most resilient. Clothing- and services-oriented retailers have been hit the hardest.

For example, some of H&R REIT's major retail tenants, such as **Walmart**, No Frills, Shoppers Drug Mart, **Dollarama**, **Metro**, and Rona are doing much better than others like Winners, Marshalls, **Cineplex**, and Hudson's Bay.

Will REITs cut their dividends?

Specifically, so far in April, H&R REIT's received about 65% of its rents from more stable office, industrial, and residential assets. Assuming the REIT gets no rents from its retail portfolio, which clearly is not the case, because it has grocery chains as some of its key tenants, H&R REIT will still receive a big portion of rental income.

Additionally, since H&R reported, about half a month remained for tenants to pay.

To be conservative, though, let's say that if the COVID-19 pandemic drags on and stores are forced to close or operate at very low capacities, that H&R REIT can cut its cash distribution by a half. This assumption gives some buffer that H&R REIT may not receive rents from some of its other tenants — no matter if they're its office, residential, industrial, or retail assets.

If H&R REIT cuts its cash distribution in half, the REIT will yield 7.9% from the current quotation of $8.70 per unit at writing. That's still a very nice passive income.

Also, keep in mind that the stock will eventually restore the payout when the virus issue dissolves. Moreover, the stock price will trade much higher then. Rising to even just $19 represents more than double one's money.

Retail REITs are most susceptible to dividend cuts. And investors need to be prepared for them. The occurrence and severity of the cuts will depend on how much the respective REITs have exposure to more defensive tenants like grocery chains.

The Foolish takeaway

Investors need to review each REIT on a case-by-case basis to determine what to expect from an investment in each. Some areas of consideration include asset type, quality of assets, dividend, and upside.

In the case of H&R REIT, it has a diversified portfolio, which consists largely of quality assets. It benefits from having office, industrial, and residential assets, other than retail properties.

The REIT might cut its cash distribution by up to a half. However, at current levels, the stock would still pay a hefty distribution and can double one's money from price appreciation when the economy normalizes.

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Date
2025/08/19
Date Created
2020/04/27
Author
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