TFSA Investors: Why REITs Just Got a Whole Lot Safer

Description

If you've got a Tax-Free Savings Account (TFSA), you may be a little nervous to invest in a real estate investment trust (REIT) right now. After all, both individuals and businesses are struggling to pay rent, which is making REITs vulnerable. Their once-stable and recurring income doesn't look as stable anymore. But Ottawa's aware of the challenges and is seeking ways to remedy those problems.

This month, the Canadian government unveiled the Canada Emergency Commercial Rent Assistance program. Under the program, qualifying commercial property owners will receive forgivable loans to cover half of the rent payments they receive from eligible small businesses that are struggling due to the coronavirus pandemic.

However, in order for the loans to be forgiven, the property owners will have to reduce the rent of certain businesses by 75% or more.

The program will assist with rent payments for the months of April, May, and June. It will ultimately depend on an individual landlord to decide whether to participate in the program, According to data from the Canadian Federation of Independent Business (CFIB), more than half of small businesses are unable to make their full rent payments.

Some rent may be better than none at all

REITs are already starting to feel the effects of COVID-19. **RioCan Real Estate Investment Trust** (TSX:REI.UN) released an update earlier this month that said it collected just 66% of its gross rents for April. Management also says that it's deferred roughly 17% of rents for the month. The danger is that the longer that the pandemic lasts, the less likely that rents will continue to get paid.

That means that REITs could run into cash flow issues if these problems are not addressed. RioCan's cash balance at the end of the year was $94 million. During the year, the company generated free cash flow of $495 million, with $443 million of that going to pay dividends.

The Rent Assistance program will at least help bridge some of the gaps that RioCan and other REITs may run into, which can help them get the cash they need to continue paying their dividends.

It also encourages landlords to work with businesses to help them get through the pandemic, which, in turn, could allow businesses to keep people employed or at least be in a position to rehire staff who have been laid off once economic conditions improve.

Key takeaway for investors

What's important for investors to note here is that as bad as things may look for businesses, the government will help many of them out as much as it can. For the health of the economy, rents need to be paid and businesses need to stay afloat.

That's why, for now, REITs still look to be safe investments. However, it's important for investors to be familiar with the properties a REIT has — and their level of risk as well before buying any shares.

CATEGORY

1. Dividend Stocks
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TICKERS GLOBAL

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

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