



3 REITs for Millennials to Buy and Retirees to Avoid

Description

The REIT sector is under pressure. Nowhere is this more apparent than in REITs that focus on retail investment. These hard-hit bricks and mortar and travel-related businesses were struggling before the global pandemic. The shutdown has been kicking the sector in the gut when it was already down. Many REITs are being priced as if retail is already dead without the hope of reviving in the future.

Three cheap REITs

While there's no shortage of REITs in Canada, three are particularly hard hit. Also, these REITs will probably retain their distributions going forward. **Brookfield Property Partners LP** ([TSX:BPY.UN](#)) (NASDAQ:BPY), **Riocan REIT** ([TSX:REI.UN](#)), and **American Hotel Property REIT** ([TSX:HOT.UN](#)) are my favourite picks at the moment. Each has been hammered during the pandemic, albeit for different reasons.

Why the carnage?

In the [case of Riocan](#), the damage is primarily due to its exposure to retail real estate. The company owns a large number of retail properties, mainly located in major urban centres in Canada. Brookfield Property is being punished for a similar reason. It owns a large number of retail and office properties. These businesses currently represent more than 75% of its revenue, so it stands to reason that there would be some fallout.

American Hotel Properties was crushed for a different reason. As the name suggests, the REIT invests in hotel properties. With the entire travel industry shut down, it is exactly the worst time ever for this business. Its geographic diversification doesn't matter at all since the entire United States has been closed for business.

Distributions

I will not make any predictions regarding the distributions in this article, as the outlook for their distributions are quite varied. Before the pandemic struck the market, Brookfield Property stated that it

intended to increase its distribution by 5-8% per year.

With the distribution at about 14%, that seems unlikely. However, Brookfield is an organization with deep pockets, so it's entirely possible. Just don't buy the stock depending on increases. The REIT trades at half its book value at the moment.

Riocan's CEO recently stated that he believes the company's 10% distribution to be safe. That is comforting, and definitely contributed to my decision to take a position in the stock. However, at this point, all bets are off in my mind concerning distributions.

I will be happy to receive a steady, 10% yield on cost, but I am not relying on it. This REIT also trades at about half of its book value.

[American Hotel Properties](#) has paused its distribution. For me, this is a very high-risk play where I am expecting people to go to hotels again at some point in the future. This REIT is trading at 0.3 times book value, making this an extreme value play with the possibility of resumed distributions in the future.

Retail real estate isn't just for retail

This comment is mainly aimed at the REITs with property in large urban centres. Look at a REIT like Riocan, for instance. Fully 50% of its properties are located in Ontario, especially Toronto, making this a property play rather than a retail investment.

The property has value, no matter what the building upon it. Riocan has been making significant investments in residential rental properties, a move that may pay off as people need places to live no matter the economic environment. In an expensive city such as Toronto, demand for rentals is likely to grow.

The bottom line

Retirees, I hate to say it but the juicy yields on these stocks are not for you. I know, you look at a 15% yield on a REIT and get drawn to the sweet cheques you will be pulling in. Unfortunately, the risk profile on these stocks is better suited to millennials. These are fairly high-risk bets at the moment that may take years to pay off.

After all, if there is one thing that oil investing has taught me it is that stocks can always get cheaper. It might be the case that the recession we are currently in may have a larger economic impact than we can as yet predict. Distributions may get cut, and real estate may sink. These are likely to be tough years ahead.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:BPY.UN (Brookfield Property Partners)

2. TSX:HOT.UN (American Hotel Income Properties REIT LP)
3. TSX:REI.UN (RioCan Real Estate Investment Trust)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date

2025/07/03

Date Created

2020/05/22

Author

krisknutson

default watermark

default watermark