REIT Investing: Should You Buy These 2 REITs Today?

Description

Stocks in most sectors have been hurting recently, and REITs have been no exception. For those focused on REIT investing, this means there might now be massive yields available.

However, investors must be very careful when selecting a REIT. There are risks abound in the current economic climate.

Right now, so many businesses are temporarily or permanently closing that rental income is in peril for REITs with many retail and industrial properties. As such, this obviously puts the dividend yield at risk.

So, it's important to be mindful of the underlying health of any REIT and its potential to pay its dividend going forward. Considering that business might not look the same for a long time, or ever, it's not enough to rely on past performance and data.

Today, we'll look at two top TSX REITs and whether or not they're safe moving forward.

REIT investing: RioCan

RioCan REIT (TSX:REI.UN) is one of the largest REITs in Canada. It owns roughly 300 properties that span about 44 million square feet.

There's no denying that RioCan has been hit hard recently. It primarily derives its income from retail properties and retail is hurting badly right now.

Plus, almost half of its properties are within the Toronto and surrounding area alone. So, you'd have to really want to bet on Toronto real estate to want a stake in RioCan.

However, the CEO has recently stated the current 10.04% yield will be safe even during these times. Despite the exposure to shopping centres and lack of geographic diversification, the earning potential from the yield might be juicy enough to entice those interested in REIT investing.

Either way, there's set to be some turbulence ahead for REITs like RioCan, and the reward might not be worth the risk for investors worried about the state of retail going forward.

REIT investing: Choice

Choice Properties (TSX:CHP.UN) is another large Canadian REIT. While it technically has a portfolio comprised largely of retail properties, they are of a slightly different nature.

Choice has a strategic partnership with **Loblaw**, and its retail locations are anchored by the heavyweight grocer. During these times, this is a comforting fact. As Loblaw continues to chug along and do solid business, Choice can rely on receiving that rental income.

However, this safety does come at a price. Contrasted with RioCan's 10.04% yield, Choice is yielding 6.07% at the moment. While still a substantial yield, those getting into REIT investing will have to weigh whether they are willing to pay that much for the extra stability.

Personally, I think Choice's extra safety over a REIT like RioCan can't be understated. Let's consider a sample time period from March 11 until today.

During that time, Choice merely dropped from $12.80 to $12.20. Meanwhile, RioCan dropped from $23.72 to $14.34.

Now, maybe some investors think that means RioCan can now be had for cheap. But I simply see that as a sign of vulnerability, and I don't see how retail-focused REITs like RioCan can regain the strength they had any time soon.

The bottom line

REIT investing can be a lucrative endeavour, but there are definite risks present. REITs like RioCan carry heavy exposure to shopping centres and lack geographic diversification.

In the face of current challenges, this puts RioCan in a tough position, even with a 10.04% yield to offer to investors. The yield is there; the risk just might be too high.

However, those looking at REIT investing can capture both a high yield and some stability with a REIT like Choice. The fact its properties are anchored by Loblaw gives it some serious reliability when it comes to cash flow.

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1. Dividend Stocks
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1. TSX:CHP.UN (Choice Properties Real Estate Investment Trust)
2. TSX:REI.UN (RioCan Real Estate Investment Trust)

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