Could the Work-From-Home Trend Kill This Dividend Stock?

Description

The work-from-home trend could have lasting impact on **TSX** dividend stocks, especially real estate investment trusts (REITs). One sector that may be particularly challenged is office REITs.

Tech giants are beginning to only work from home

A number of weeks ago, **Open Text** indicated that it will close out office locations and favour a new, less-centralized, work-from-home structure. The CEOs of both **Twitter** and **Facebook** endorsed their workers to work from home indefinitely. **Shopify's** CEO, Tobi Lutke, went on BNN Bloomberg to state that he believes "we are seeing the end of office-centricity." He believes the COVID-19 crisis is accelerating a shift to complete work digitization.

So, what does this mean for some of Canada's best-known, dividend-paying office stocks? Let us look at **Allied Property REIT** (TSX:AP.UN) as an example. Is its dividend, and ultimately its businesses, safe, considering this massive trend shift?

This dividend stock has a history of strong performance

Up until March, Allied Property REIT was one of the best-performing dividend-paying real estate stocks on the TSX. Since 2003, it has earned an average annual total return of 15.4%. Allied is best known for its distinct Class I workspaces (think trendy, exposed wood, brick, and natural light); it catered to technology, advertising, media, and information (TAMI) tenants. Its properties are primarily located in Toronto, Montreal, and Ottawa.

This dividend stock has weathered the COVID-19 crisis fairly well. In April, it collected 90% of rents and had only 8% of rent deferred (mainly from retail/hospitality tenants). One reason I like Allied is because its properties are centrally located in Canada's top business and population-growth hubs. If any markets are to remain resilient in the COVID-19 crisis, it is these.

Likewise, Allied has a diversified portfolio with exposure to a wide variety of TAMI tenants. Its portfolio is 70% office, but it also has a unique 15.7% exposure to urban data centres. Data centres have experienced very strong operations in the pandemic crisis, and its central location are a bonus.

What is concerning about Allied?

My primary concern with this dividend stock is its overweight exposure to work-from-home-leaning tech tenants. Shopify is its fifth-largest tenant. Allied's overall average lease term is 5.8 years. Yet this new trend could put pressure on lease renewals, as tenants reduce or step away from space allotments.

As well, the stay-at-home trend could impact Allied's capacity to pre-lease new properties. Allied is a very active developer. This has been a key to its strong historical returns.

Presently, it has over 2.5 million square feet of space in its development pipeline. In 2020 and 2021, 1.2 million square feet of new space will become operational. Luckily, 81% is already pre-leased. However, there is concern that pre-leasing could slow, and anticipated development growth could also dry up.

Is this dividend stock's payout safe?

Fortunately, Allied has a very low leverage ratio of 27.2%, strong 94.5% overall occupancy, and a conservative distribution-payout ratio of 71.4%. The stock is trading with a 4.14% dividend yield (which, is historically very cheap). Allied should be able to pay its distribution, despite even some future occupancy pressure. Management may hold off on dividend growth; however, its dividend is certainly sustainable right now.

Is Allied's business safe?

Of course, it is uncertain whether the work-from-home trend will really last. Anyone working from home with young children knows it is tough. It is also lonelier. There is something special about workplace camaraderie and friendship. It is really uncertain how working from home could affect business relationships, mentoring, effectiveness/flow, and team connectivity.

Yes, work environments are changing. Yet, could it change to the extent that some "tech visionaries" predict? It is human nature to connect in person. I think, for this reason, Allied remains a relevant dividend stock to own.

Its properties are distinct: they are well located, attractive, creative, and full of amenities, culture, and lifestyle options. If there is any workspace in the future, these are the ones people want to be in. Considering that, I think Allied is still a solid stock to hold for dividends. As long as people need people, this stock should be alive and well for many years to come.

CATEGORY

1. Coronavirus
2. Dividend Stocks
3. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:AP.UN (Allied Properties Real Estate Investment Trust)

PARTNER-FEEDS

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

Category

1. Coronavirus
2. Dividend Stocks
3. Investing

Tags

1. Editor's Choice

Date
2025/08/24
Date Created
2020/05/26
Author
robbybrown