Canadian REITs Are Slashing the Dividends

Description

Canadian real estate investment trusts (REITs) are facing unprecedented times. The COVID-19 shutdowns are creating havoc on the economy. Individuals and businesses alike are facing difficult times, and the real estate landscape is undergoing what is likely to be a permanent change.

Canadians are applying for unemployment at a record rate and are struggling to pay rent. Companies are facing similar rent challenges, as some have been forced to close their doors, and others have seen a big reduction in revenue.

Likewise, the sudden shift to working at home will usher in a new era. High-profile companies such as **Facebook** and **Open Text** have already announced that they will shift towards a work at home model permanently. Expect many companies worldwide to follow suit, reducing the need for office space.

In response to this uncertainty, companies are taking action by slashing the distributions. Canadian REITs were once reliable, high yielding stocks but are now proving to be quite vulnerable.

The most recent Canadian REITs to cut

Last week, **H&R REIT** (TSX:HR.UN) and **BTB REIT** (TSX:BTB.UN) became the latest real estate companies to slash the distribution. In total, eight Canadian REITs have either cut or slashed the distribution since the start of the pandemic.

On May 14, H&R REIT slashed the monthly distribution in half from $0.115 to $0.06 per share. H&R owns properties in Alberta, Ontario, and in the United States. The company's asset base consists of office and shopping centres. That being said, the majority of revenue stems from its portfolio of Ontario-based office properties.

Since the start of 2020, H&R's stock price is down 50.7%. The company's distribution cut is but one of many strategies the company is undertaking during these unprecedented times. It is also postponing capex and working with several tenants on rent deferrals.

Speaking of which, it has collected 85% of April rents and 80% of rents due in May. Given its high exposure to office properties, this Canadian REIT is more vulnerable to a shift to working from home, despite long-term contracted tenants.

A small-cap REIT

For its part BTB is one of the smallest Canadian REITs on the TSX Index. It has a mix of retail, office, and industrial properties. The majority of revenue stems from its retail and office properties.

Like H&R REIT, this small-cap real estate company announced a cut to the distribution approximately two weeks ago on May 14. Reflected annually, the company's new $0.30-per-share distribution is 28.57% lower than its previous annual rate. Although disappointing, it is among the lowest cuts in the industry (in terms of percentages) thus far.

Somewhat surprisingly, BTB REIT is one of the best-performing REITs on the TSX Index. Whereas most are sitting on losses upwards of 50%, BTB is only down by 37.14% year to date. This Canadian REIT is likely holding up well, as it still managed to grow by double digits in the first quarter. It grew net adjusted operating income by 36.7% and recurring FFO per unit to 10 cents, up from 8.4 cents previously.

A word of caution. Despite impressive growth rates, the company's rent collection thus far is below average. BTB has collected only 79% of April rents, and for May, only 56% of contractual rent has been collected thus far. First-quarter results came in largely below expectations, and the company has since received several lowered price targets and downgrades.

We may yet see a second wave of the COVID-19 pandemic and, along with it, additional intervention efforts. Given this, it may be one of the more volatile Canadian REITs considering how well it is holding up versus peers.

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Date
2025/08/14
Date Created
2020/05/28
Author
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