These 2 REITs Can Earn You $500/Month

Description

The COVID-19 pandemic has created chaos in the real estate market. REIT stock prices have halved as the pandemic-driven lockdown forced many offices and retail stores to shut down temporarily. REITs with high exposure to shopping malls, restaurants, and hotels took the biggest hit, as they struggled to collect rent.

The year 2020 is challenging for real estate. But it presents a once-in-a-lifetime opportunity to buy REITs at half the price and derive value through dividends and capital appreciation in the long term.

Why REITs are the ultimate value stock

The real estate investment gives stable returns (in the form of rents) and is resilient to an economic downturn. However, it requires enormous capital investment and lacks liquidity, as selling a property can be time consuming. REITs enable individual investors to get exposure to real estate returns while offering liquidity of equity stock. They pay dividends on pre-tax income earned through rent and capital gains. As they don't pay corporate tax on dividends distributed, their average dividend yields are double that of common stocks.

Two Canadian REITs **RioCan REIT** (TSX:REI.UN) and **SmartCentres REIT** (TSX:SRU.UN) have significant retail space exposure. They are also developing office and residential projects.

Retail REITs are too cheap to ignore

REIT stocks are not very volatile, which makes them a safer investment option. The last time RioCan and SmartCentres fell more than 50% was in the 2008 financial crisis when liquidity dried up. At that time, they paused their dividend growth but maintained their dividend-per-share amount. Those who purchased these REITs at that time earned the same dividend for half the price. They not only benefitted from dividends but also from capital appreciation, as the two stocks doubled and tripled from their record lows over the next three years.

After 10 years, the COVID-19 crisis has created another opportunity to buy at a dip. Stocks of RioCan and SmartCentres are trading 40% below their regular trading price. Lower stock prices have increased their average dividend yields from 5% to 9%.

Will your money be safe in SmartCentres and RioCan?

The above earnings from REITs look attractive but come with risks. Unlike the 2008 crisis, rent collection is a significant challenge at present, creating uncertainty around REITs' future cash flows. In the worst-case scenario, other REITs could follow **H&R REIT** and slash their dividends by 50%.

However, SmartCentres and RioCan are better positioned for crisis, as most of their tenants comprise essential services like grocery, pharmacy, and banking. Most of their tenants have high creditworthiness. The two REITs are looking to maintain their occupancy rate by offering rent deferrals to non-essential businesses and small independent retailers struggling to pay rents.

As the economy reopens, non-essential retail shops and restaurants will open safely. These stores will benefit from the pent-up demand created during the lockdown. Although the second wave of COVID-19 could lead to another selloff in REITs, it will be less severe than the first one, as they are better prepared to handle the pandemic.

The year 2020 will be challenging for SmartCentres and RioCan, but they can withstand the tough times with their strong balance sheet and high liquidity. In the long term, the two REITs will earn rent from office and residents, which will minimize their risks and maximize their earnings and dividends.

REITs can earn you $500/month

If you are over 28 years old and have never invested in Tax-Free Savings Account (TFSA), you can contribute up to $69,500 in your TFSA. If you invest this entire amount in RioCan and SmartCentres, it could fetch you a monthly dividend income of over $500 while keeping your investment intact. Even if the two REITs cut their dividends by half, you will earn $250/month.

In addition to the dividend income, your lump sum amount could double over the next three to five years as the economy recovers. The entire income from these REITs would be tax-free.

CATEGORY

1. Coronavirus
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

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

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pujatayal