This 8% Yield REIT Just Surged 53% — and It's Just Getting Started

Description

The coronavirus disease 2019 (COVID-19) pandemic has wreaked havoc on the retail REIT world. The Great Shutdown has caused retail store traffic to implode. With the potential for a second wave of outbreaks that could be in the cards later in the year, many bears are in the belief that a considerable chunk of the demand for retail space will be lost forever.

The future of retail will not be 100% digital

Even before the pandemic started, many folks were bearish on brick-and-mortar retail in the belief that e-commerce will eventually replace the last of the surviving physical retailers. The "death of the shopping mall" thesis has been subscribed to by many, even more so amid COVID-19 lockdowns. But what many investors may be discounting is the co-existence of both physical and digital retail in a sort of equilibrium.

Heck, even **Amazon.com**, the largest e-commerce kingpin of them all, is looking to venture into the realm of the physical, with its Amazon Go convenience stores, physical bookstores, and a potential buyout of movie-theatre chain **AMC Entertainment**.

It's clear to the managers at Amazon that the future of retail and entertainment is not solely digital, however. As Amazon looks to grow in the realm of the physical, many investors will re-discover the importance of retail space. And in due time, an innovative retail REITs such as **SmartCentres REIT** (TSX:SRU.UN), which currently sports a massive 8% yield, will eventually shed the "death of the shopping mall" discount on its shares.

SmartCentres REIT has a smart long-term growth strategy

There's no question that the retail REITs of yesteryear will need to adapt to the times. Nobody wants to shop at big-box department stores anymore, and the underlying value of retail space will ultimately depend on its proximity to urban residential areas.

Massive retail spaces in the middle of nowhere that used to house Sears-like department stores may be headed the way of the Dodo Bird.

However, for a highly adaptive REIT like Smart, which is working on lucrative mixed-use development projects, the REIT is in a spot to experience substantial funds from operation (FFO) growth over the long haul, as it aims to create a symbiosis of residential and retail real estate.

SmartCentres REIT remains resilient in the face of a crisis

In the meantime, SmartCentres will continue rolling with the punches amid this pandemic. The REIT drew down $460 million of its $500 million revolving operating facility back in March and is in a spot to continue paying the sizeable distribution to shareholders for the time being.

Cash flows have also been far more stable than the coronavirus-induced decline in share price would suggest. Around 60% of SmartCentre's tenant base is considered providers of essential goods and services, which helped the retail REIT stay resilient in the face of one of the worst crises for the retail space in recent memory.

Wal-Mart anchors approximately 73% of SmartCentre's locations. These locations have been doing the heavy-lifting amid these pandemic-induced shutdowns.

Should another outbreak hit, the distribution may be taken to the chopping block, so investors should only place a bet on the 8%-yielding retail REIT if they're willing to stay the course over the long haul.

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