



3 Real Estate Stocks That Cut the Dividend in Q1

Description

Real estate stocks have been among the most impacted by the current pandemic. Through March 31, the Real Estate sector lost 29.29% of its value. By comparison, the **S&P/TSX Composite Index** lost just 21.59% in the first quarter.

The economic impacts of COVID-19 mitigation efforts is having widespread impacts on cash flows. Not surprisingly, this is resulting in a record pace of dividend cuts and suspensions. As many investors rely on dividend paying companies for income, this is problematic.

In the first quarter, 30 TSX-listed companies either cut or suspended the dividend. Of those, three are real estate stocks.

	Old	New	Change	Date
American Income Hotel Properties REIT (TSX:HOT.UN)	\$0.05	\$0.00	-100.00%	3/20/2020
Melcor REIT (TSX:MR.UN)	\$0.0563	\$0.03	-46.67%	3/20/2020
Melcor Developments (TSX:MRD)	\$0.12	\$0.10	-16.67%	3/11/2020

The first Canadian real estate stock to cut

On March 11, 2020, Melcor Development became the first Canadian Real Estate Stock to cut the dividend. The new quarterly dividend of \$0.10 per share represented a 16.67% decrease over the previous quarterly payout of \$0.12 per share.

Melcor is an asset management company that develops and manages a variety of properties. It operates in four divisions: Community Development, Property Development, Investment and REIT, and Recreational Properties (golf courses).

The cut came as a direct result of COVID-19 economic impact. It anticipates that the pandemic mitigation efforts will have a negative impact on future cash flow and funds from operations.

Interestingly, this Real Estate stock also cut the dividend by a penny in the third quarter of 2019. In fact, it hasn't been the most reliable dividend payer having cut the dividend a number of times since

2015. Given this, it is not surprising that Melcor lost 45.5% of its value in the first quarter and has yet to rebound in any meaningful way.

That said, the company is sufficiently diversified and it may rebound in a big way. Melcor is trading at an 80% discount to book value of \$35.00 per share and investors are significantly [discounting its assets](#).

Melcor's REIT

Once parent company Melcor cut the dividend, it was not surprising to see Melcor REIT follow suit. On March 20, 2020, Melcor REIT slashed the distribution by 46.67% – the first cut in company history.

This diversified REIT has industrial, office, residential and retail properties with a primary focus on Western Canada. Melcor REIT's troubles were two fold. First, the price of oil crashed, then the pandemic hit. Between low oil prices and the COVID-19 mitigation efforts, the company expects “.. reduced demand for space over an uncertain time period in the wake of this global crisis.”

Recently, the company announced that it collected 71% of April rents. This total included only 58% of rents in retail and 79% of rents from office tenants. On the flip side, it saw strong 99% and 100% collection rates from industrial and residential tenants.

This is a real estate stock that was struggling pre-pandemic. In fact, fellow fool contributor Nelson Smith [warned investors](#) that a cut was imminent.

An industry facing new reality

Arguably, the travel industry has been the most impacted by the pandemic. In fact, it may never be the same. We are entering a new era whereby work at home is becoming the norm and organizations are cutting back on travel.

Given this, hotel REITs such as American Hotel Income Properties are facing a new reality. With travel having all but come to a halt, American Hotel announced an outright suspension to the dividend. A prudent move, but one that will hurt income investors in a big way.

As with most suspensions, it is likely to be temporary. However, once the monthly distribution is reinstated, it may take time for it to reach \$0.05 per share — if it ever does. Companies and governments worldwide have already announced that measures to limit travel will extend well into 2021 and beyond.

Given this new reality, this real estate stock is among the least attractive for income seekers despite what appears to be low valuations.

CATEGORY

1. Coronavirus
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. TSX:HOT.UN (American Hotel Income Properties REIT LP)
2. TSX:MR.UN (Melcor Real Estate Investment Trust)
3. TSX:MRD (Melcor Developments Ltd.)

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