1 REIT Yielding +10% That Could Be a Bargain Buy Today

Description

Not everyone's paying their rent these days. For dividend investors, that means it's important to be extra picky when choosing a real estate investment trust (REIT) to put into your portfolio. REITs can vary significantly in terms of both where their properties are located and how they're used. Knowing the composition of a REIT can be helpful in assessing its risk level. A big risk factor right now: retail.

Data from an industry trade group in the U.S., Nareit, suggests that investors should avoid REITs that have too much exposure to retail. But the data suggested that not all retail REITs are equal, either. It distinguished between shopping centre REITs and free-standing retail, such as grocery stores.

Rent collection in the free-standing retail group was 70% of normal rents in both April and May. But when it came to shopping center REITs, the rent collection percentage fell to just 48%.

A key reason for the difference: many stores in shopping centres are not essential and would have been closed amid lockdowns. Nareit also found that office REITs were still strong, with 92% of tenants staying on top of their bills. Apartment REITs were at 95%, while industrial REITs collected 96% of what they typically get in a month.

Why a retail REIT may be worth the risk

The easy option for investors would be to avoid all retail REITs. However, doing so could also mean missing out on the opportunity to cash in on lower share prices and higher yields. While it would be wise to avoid shopping mall REITs since retailers were already in trouble even before the pandemic, free-standing retail could provide a bit more stability.

For contrarian investors, it could be an advantageous way to lock-in a high yield, especially if the REIT is still doing well and collecting the bulk of its rent.

Slate Retail REIT (TSX:SRT.UN) is a great example of an intriguing opportunity. Share of the REIT were down more than 27% through the first five months of 2020. With a monthly dividend of US$0.072, Canadian investors who buy the stock today are earning an annual dividend of more than

10%.

That’s an exceptional payout if it proves to be stable. And right now, there’s reason to believe that it could be.

On May 28, the company provided a COVID-19 update saying that it collected 87% of its May rents in cash and that it was still expecting to collect more. The company also confirmed that 80% of its tenants were still operating. What makes Slate Retail a unique is that the company says its portfolio is “100% grocery-anchored.”

Many cities are beginning to reopen in the U.S., and the good news for REIT investors is that, at least for now, that may mean the worst is over. While there’s certainly some risk involved in holding a retail REIT, Slate looks to be a calculated risk.

Even if there’s an uptick in COVID-19 cases and more lockdowns to come, the REIT’s grocery-anchored portfolio should be much more resilient than other retail REITs.

If economy does indeed rally, shares of the stock could surge, giving you some great capital gains to go along with a double-digit dividend yield.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:SGR.UN (Slate Retail REIT)

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1. Business Insider
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djagielski