Is This 8.3% Yielding TSX REIT a Safet Bet Right Now?

Description

REIT investing is favoured by investors seeking an assured stream of passive income. However, this pandemic has all but guaranteed that the word "assured' will be a mirage in the near future.

Storied names in the REIT space are seeing tremendous amounts of pressure on their top and bottom lines, and you will need a fine comb to pick winners in this sector as the markets slowly open up.

An investor favourite in this space has been **SmartCentres REIT** (TSX:SRU.UN). The REIT has a portfolio consisting of retail space in 157 properties across Canada. It has over $10 billion in assets with 98% occupancy and its dividend yield is 8.28%.

Its list of 3,100 tenants includes the likes of **Walmart**, **Costco**, **Home Depot**, **Lowe's,** and Dominos. That said, this isn't a safe stock right now.

Lower discretionary spending will hurt retail REITs

As life returns to a new normal, the retail sector is going to have to make some tough decisions being made. Discretionary spending will decline, and while SmartCentres' larger tenants might be able to stand the pressure, the same won't hold true for the smaller occupants at SmartCentres properties.

Another point to ponder over is that the latest dividend payout ratio has exceeded 100%, which might not be the most prudent way to go about spending money you don't have. SmartCentres has raised $600 million via unsecured debentures that will be used to pay existing debt and for general expenses.

This is not to say that SmartCentres is not trying to mitigate its commercial risk, however. The trust announced a $12.1 billion "intensification program" under its SmartLiving banner. This program focuses on rental apartments, condos, seniors' residences, and hotels. This is a strong move away from its dependence on commercial retail.

It will also focus on retail, office, and storage facilities that will be developed under its SmartCentres banner. While this is a good move and will add 27.9 million square feet of space to SmartCentres' portfolio, 100% construction is expected to start in the next five years. This diversification will pay off in the long run.

However, the question is: Do investors have the patience to wait?

Safer REIT Options

Investors who like REITs would be better off looking at **Killam Apartment** and **NorthWest Healthcare Properties**. I had written about both of them last month, saying that I quite liked their business models. Killam focuses on renting on residential spaces, while NorthWest focuses on renting out space to healthcare companies.

A quick look at Killam's May 2020 Investor Presentation shows that the company has only collected 72% of its April 2020 rent from its commercial tenants.

It hasn't had a major impact on its overall revenue figures, as commercial accounts for just 6% of its 2020 targeted revenues. Killam has a huge presence in affluent locales in eastern Canada, indicating that the stock can hold its own in an uncertain and volatile macro-environment.

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