Market Crash 2020: 2 TSX Real Estate Plays I'd Avoid This Year

Description

Real estate companies will face several challenges stemming from COVID-19. Many companies are seriously considering letting their employees work from home for the foreseeable future. Downtown locations might not be so hip anymore, and commercial real estate will take a major hit at least in the short term as businesses decide how many employees are actually needed in the workplace.

People simply aren't turning up to work. Toronto Transit Company (TTC), said that the pandemic has impacted it to the tune of $92 million in April 2020. Even as lockdown restrictions have lifted in May, the TTC is not seeing a huge uptick in this passenger fares.

All of these signs point to the fact that commercial real estate stocks might not be the best bet until there is clarity on the market and what companies plan to do. The two stocks in this piece are both commercial real estate landlords and the market hasn't been kind to either.

A TSX real estate giant

Morguard Corporation (TSX:MRC) owns 206 real estate properties across North America across the residential, retail, office, industrial, and hotel assets. Its rent collections for the month of April 2020 were as follows. Residential rent collected was 96%, which accounts for 42% of revenues.

Only 47% of retailers paid their rent (accounts for 27.3% of revenues). Office space was a decent 93% (accounts for almost 30% of revenues), and the industrial tenants paid almost 87% (accounts for 1.2% of revenues).

As of May 5, 2020, almost 60% of the company's retail portfolio was closed, representing around 16% of Morguard's annualized revenues. Morguard stock was trading around $210 in February 2020 before crashing to less than $120 in May. There has barely been any recovery in this space. Fellow Fool Nelson Smith thinks that this is one of the best real estate stocks to invest in Canada right now.

The biggest challenge for Morguard is that many small businesses and retailers are not expected to survive the pandemic, which means there will be fewer businesses returning to their leases. My suggestion would be to wait for a month or so before buying into this story.

Why it's time to avoid Melcor Developments

Melcor Developments (TSX:MRD) is another real estate development and management company in Canada that will face a tough time ahead. The company announced its results for the first quarter of 2020. While the numbers were decent, the company admitted that the future is uncertain.

They expect the pandemic to have negative repercussions on future cash flows and funds from operations. The statement said, "The extent and duration of the impact on our results cannot be accurately predicted at this time. We anticipate that sales of single-family lots may slow down and that our tenants may not be able to pay full rent. In addition, our golf courses opened later than usual due to restrictions on recreational activities and our pro shops and restaurants remain closed."

It added, "While our business has survived economic ups and downs for nearly 100 years, the current situation is indeed unprecedented."

This line in particular doesn't inspire a lot of confidence. Melcor stock has fallen from over $12 in February to just over $7 today. The road to recovery is long and tough. Avoid the stock for now.

CATEGORY

1. Coronavirus
2. Investing

TICKERS GLOBAL

1. TSX:MRC (Morguard Corporation)
2. TSX:MRD (Melcor Developments Ltd.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Coronavirus
2. Investing

Date
2025/08/17
Date Created
2020/06/28
Author
araghunath