REIT Investing: How Viable Is It Now?

Description

There's no question stocks have been hit hard by the global pandemic. REIT investing picks have been no exception, as rent collection has been down virtually across the board.

Of course, with businesses closing shop left and right, this was to be expected. So, any REIT will need to have the resiliency to tackle this challenge to prove to be a good investment.

Plus, beyond simply weathering the storm, there's the question of whether the business will just return to normal. It's entirely possible that we'll see a long-term paradigm shift to remote working, online shopping, and so on.

As such, REITs will need the diversification required to move forward in a changed economy.

Today, we'll look at two large **TSX** REITs to see just how attractive REIT investing might be at the moment.

RioCan

RioCan REIT (TSX:REI.UN) is one of the largest REITs in Canada. Its portfolio of properties contains roughly 39 million square feet of leasable space.

RioCan has been able to maintain its dividend so far through the tightening economy. With a payout ratio of 65.45%, I wouldn't say the dividend is in grave danger of any immediate cuts, however.

However, it's important for investors to keep in mind that RioCan is heavily focused on retail properties. This REIT investing option also lacks geographic diversification as about half its properties are in Ontario.

As of writing, the share price is down 41.95% over the past 52 weeks. So, there could be some upside in your principal investment to go along with the 9.24% yield on offer.

However, vacancy issues could be a persisting problem down the line as the true damage to the economy unfolds. While there are certainly rewards to be had in REIT investing with RioCan, the risk is present as well.

SmartCentres

SmartCentres REIT (TSX:SRU.UN) is another large Canadian REIT. Like RioCan, it focuses mainly on retail properties and owns various strip malls.

However, unlike RioCan, SmartCentres seems to be a bit over its head with its current dividend. As of this writing, this REIT investing option is yielding 8.75% with a payout ratio of 102.85%.

This certainly doesn't seem like the most sustainable way to provide a dividend, especially given the condition of the economy. So, investors might need to bake-in a small dividend cut when considering this REIT.

SmartCentres has now committed resources to help diversify its portfolio. It plans to develop industrial and residential properties as well, but those projects are expected to take around five years to complete.

So, for the time being, the REIT remains heavily oriented toward its retail portfolio.

With tough conditions in store for this REIT investing pick and a payout ratio that is already far too high, it's difficult to say SmartCentres would be a safe choice over some of its peers.

REIT investing strategy

While REITs have certainly been beaten up as of late, there might still be some light at the end of the tunnel. While SmartCentres certainly has a tough road ahead in the near term, RioCan appears to have somewhat solid positioning to weather the storm.

As with any REIT investing pick, there are certainly some risks at play. However, investors can still find decent value-to-risk ratios with REITs like RioCan.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:REI.UN (RioCan Real Estate Investment Trust)
2. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)

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