The Safest REITs for Income During COVID-19

Description

Real estate investment trusts (REITs) are a great source of income, but you need to know where to look. Currently, investors have got to be extra careful because of the COVID-19 impacts that are weighing on the performance of certain REITs more than others.

Get safe income from this industrial REIT

Granite REIT (TSX:GRT.UN) is making all-time highs. As an industrial REIT, it enjoys highly stable funds from operations (FFO) generation during this pandemic, as consumers are buying more online.

Granite's portfolio consists of roughly 90 logistics, warehouse, and industrial properties across nine countries in North America and Europe. About 50% of its portfolio is in the United States. Its defensive assets lead to a high overall occupancy of 99% with a weighted average lease term of roughly six years.

At writing, Granite REIT offers a yield of about 3.9%, which is supported by a payout ratio of roughly 73% this year.

The delinquency rate is the percentage of loans that are past due. It indicates the quality of a loan portfolio.

Trepp, LLC found that only 1.57% of loans backed by U.S. industrial properties in commercial mortgage-backed securities (CMBS) were at least 30 days delinquent in June, up from 1.36% in April.

This suggests the industrial real estate industry is much more defensive than hotel and retail properties, for which the CMBS delinquency rates spiked nearly nine times to 24.3% and five times to 18.07%, respectively.

This office REIT is better

Next on the safety list are office properties. The CMBS office delinquency rate jumped 39% from April to 2.66% in June.

So, if you own quality office REITs like **Allied Properties REIT** (TSX:AP.UN), your income is pretty safe. It's true the stock has fallen close to 30% from its 2020 high, but it was actually very expensive then.

The pullback makes the stock more reasonably valued for investment. At under $41 per unit at writing, Allied Properties trades at a premium valuation of about 17.9 times its FFO. The office REIT that owns Class I office spaces normally commands such a premium. In fact, Allied went public in 2003 to consolidate Class I workspace that was centrally located, distinctive, and cost effective.

Allied Properties's Q1 performance was fine with same-asset net operating income growth of 4.3%. April started to show the initial impacts of COVID-19 disruptions. For the month, it collected about 98% of its rents, although 8% of the total rents were deferred by a month.

The REIT expects "some erosion" to its rental revenue for the remainder of 2020. However, it expects its urban-data-centre space, which comprises about 15% of its portfolio, to boost earnings this year and be even more material for longer-term earnings.

Due to COVID-19, Allied Properties lowered its 2020 guidance and now forecasts "flat-to-mid-single-digit percentage growth" in its FFO per unit. Assuming its FFO stays flat this year, its payout ratio would be about 73%. So, its yield of about 4% is intact.

The Foolish takeaway

Granite REIT's cash distribution is secure. Unfortunately, the stock is fully valued. Consequently, its share price likely won't stray far away from current levels over the next 12 months.

For greater value, investors should check out Allied Properties REIT, which provides a greater yield and more upside. Analysts have an average 12-month price target of $52.10 on the stock, which represents nearly 28% near-term upside potential. Its 4% yield will also add to returns.

Income investors can nibble Allied to start collecting monthly income. The company will reveal its Q2 results this Thursday, which would shed more light on the pandemic impacts in the near term.

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