Lazy Landlords: Why Now's a Great Time to Start a Passive-Income REIT Empire

Description

Following the COVID-19 stock market crash, lazy landlords now have an opportunity to scoop up shares of their favourite REITs at bargain-basement prices to form their own passive-income empire for cheap. The stock market has mostly moved on from the crisis, but most REITs haven't participated in the recent relief rally. Some of the harder hit real estate plays, including the retail and office REITs, are trading at steep discounts. Some passive-income darlings prior to the pandemic have seen their share prices get cut in half or more.

While the seemingly insurmountable headwinds facing the REITs are enough to stay on the sidelines, I think it makes sense for long-term thinkers to buy battered REIT shares while they're depressed and before a COVID-19 vaccine sparks some reversion to the mean in demand for retail or office space.

But be warned: just because shares of your favourite REIT have fallen by 50% or more does not mean another 50% plunge can't happen after you've purchased shares, especially if it turns out we're still in the early phases of this COVID-19 crisis.

A pandemic can be an impossible beast to predict. Still, if you're like me and aren't subscribing to the "death of the shopping mall or office" thesis, and that in due time, REITs will recover from this crisis, you may want to look to shares of **H&R REIT** (TSX:HR.UN) and **SmartCentres REIT** (TSX:SRU.UN), two quality REITs that are now down 62% and 48% off from their all-time highs, respectively, with yields of 6.7% and 9.1%, respectively.

H&R REIT

Office REITs are the last place that many investors and lazy landlords want to be amid this pandemic. The work-from-home (WFH) trend is taking off, and many work forces are discovering that it is possible to be productive without having to commute into the office every day. While I think many firms will ditch the office once their next lease comes due, I find that a majority of companies will be headed back to the office, at least on a part-time basis, once the pandemic ends.

Even some reversion in mean demand for office space will be enough to move the needle on H&R

REIT, which is profoundly out of favour. Who knows? Shares could bounce back as abruptly as they did in the recovery from the Great Financial Crisis. But you'll have to buy shares today, while they're in the doghouse, to get the most benefit from a potential relief rally, which could span many years.

SmartCentres REIT

Like office REITs, retail REITs are also heavily out of favour. E-commerce is taking off, and many may view this pandemic as the final nail in the coffin for brick-and-mortar shopping centres. While there's no denying the secular rise of e-commerce, I think the pandemic has caused a medium-term blip rather than an acceleration of a secular trend that was already in full force before the pandemic.

At these depressed valuations, I also think there's considerable upside potential as the economy returns to normalcy. If the worst is behind us, Smart's distribution could survive, even though a small chunk of its tenants were hit hard enough to enter creditor protection.

And for long-term investors, one has to be encouraged by the potential of Smart's multi-use property projects, which could literally pay big dividends to lazy landlords over the next three years and beyond.

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