



## Market Crash 2020: Should You Buy REIT Stocks?

### Description

The year 2020 will be marked in the stock market history as the most unusual recovery, despite the ailing economy. What is unusual about the stock market rally in the last few months is that it has been skewed around tech stocks. Moreover, the stock market is rising, even when the economy contracted. This weird behaviour of the market won't sustain. A [second market crash is in the making](#), and this crash might be worse than the first crash. Amid these uncertainties, should you buy real estate investment trust (REIT) stocks?

### The second stock market crash

There are two possible explanations for the stock market rally since April:

- The first is higher liquidity in the hands of Canadians, which emergency benefits offered.
- The second is the growing confidence of informed investors in the stock market.

Traditional investors preferred putting their money in banks. But the fiscal stimulus package reduced interest rate to nearly zero, and loan deferrals exposed banks to a higher risk of default. Both the reasons made banks risky investments. Hence, people shifted to buying stocks.

The stock market rally is backed by liquidity coming from emergency benefits. When the benefits end, the liquidity bubble will burst, and the stock market will crash. The second crash will be worse than the first one, because there wouldn't be sufficient capital in the market.

All companies are raising as much capital as possible to have sufficient liquidity for the difficult times. They probably fear that they won't be able to secure capital when the economy enters recession. Are REITs good investments in a recession?

### Should you buy a REIT stock?

REITs earn money by renting properties. There are many types of REITs, such as retail REITs,

residential REITs, infrastructure REITs, and hospital REITs. The risks and opportunities of REITs are similar to that of a landlord, but REITs are more affordable and less risky.

In this article, I will talk about retail REITs that rent their property to retailers. **SmartCentres** ([TSX:SRU.UN](#)) and **RioCan** ([TSX:REI.UN](#)) are the largest retail REITs in Canada. The two stocks took a significant blow in March when the government imposed a nationwide lockdown of non-essential stores. However, SmartCentres and RioCan have high exposure to essential services like banks, grocery, and pharma stores. Hence, their cash flows did not take a significant blow.

Moreover, the government also announced Canada Emergency Commercial Rent Assistance (CECRA) for small businesses, helping REITs recover 75% of the rent for

## Risks with retail REITs

However, SmartCentres and RioCan earn a major portion of their revenue from big retailers with good creditworthiness.

- SmartCentres's gross rent collection improved from 74% in April to 84.8% in July.
- RioCan's [gross rent collection](#) improved from 73% in April to 85% in July.

The overall rent collection was lower in the second quarter, which reduced their cash flows

The fourth quarter is crucial for retail REITs, as the real impact of the pandemic would be visible after the government aid ends. SmartCentres and RioCan could see rent defaults and reduced occupancy rates as small retailers go out of business.

The two REITs have set aside \$15 million and \$19 million in provision for rent abatements and bad debts in the second quarter. SmartCentres had a better occupancy rate of 97.6% than RioCan's 96.4%. They have ample liquidity and strong balance sheets to weather the crisis.

## Investor centre

Despite the short-term risks, the REITs have maintained their dividends per share. The reduced stock price has inflated their dividend yield to 9% and 10%, creating an opportunity to lock in high dividends. Even if they cut dividends and their yield falls to 5%, it is a good long-term reward for a short-term risk.

### CATEGORY

1. Coronavirus
2. Dividend Stocks
3. 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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