2 REITs That Are Built to Ride Out a Market Crash

Description

Canadian real estate investment trusts (REITs) are recovering meaningfully after a huge earnings drop in the first half of 2020. The largest year-over-year decline in quarterly earnings happened in the second quarter. A notable observation is that REIT stocks aren't keeping pace with the surging real estate market.

The impact of the pandemic varies per sub-sector, and hospitality REITs are suffering the most. Over the past 12 months, only the industrial REIT class has a positive return. Still, REIT stocks are excellent sources of passive income. Some can withstand a market crash.

The least pandemic sensitive

Slate Grocery REIT (TSX:SGR.UN) owns and operates 77 shopping centres in 20 U.S. states and 19 metropolitan areas. In the TSX, it's the only 100% grocery-anchored business in the real estate sector. Since the REIT boasts of essential-based tenancy, the stock can endure economic downturns.

Supermarkets and grocery stores account for 38% of the total portfolio. **Wal-Mart** and **Kroger** are the top two tenants. About 62% of base rent comes from grocery and essential goods and service-based tenants. Given its tenant composition, Slate Grocery has the lowest exposure to coronavirus-sensitive lessees.

In August 2020, cash rent collections are back to 94% from 87% in April. Nearly 92% of Slate's tenants are open for business, while only 1% is under rent deferral. Expect grocery stores to remain as critical food distribution points.

In terms of earning potential, this REIT stock pays an 8.04% dividend. A $50,000 investment will produce a hefty passive income of $4,020.

Proven asset class

Summit Industrial (TSX:SMU.UN) is on top of the heap with its 9.43% year to date. It shouldn't be a surprise because industrial properties are in high demand during the pandemic. According to CEO Paul Dykeman, the vast majority of the REIT's tenants pay rent on time, and the trend should continue over the near term.

The key takeaway for this top-performing REIT is its proven asset class. Tenants use Summit's 158 light industrial properties as warehouses and storage facilities, light assembly and shipping plants, and call centres. Some of them provide technical support and professional services.

This $1.95 billion REIT has strong fundamentals and unique competitive advantage. Operating costs and market rent volatility are both low. The generic use of rental spaces is highly marketable. Its tenant base is broad and diverse, and the group basically track the overall economy.

At $12.75 per share, Summit Industrial pays a 4.27% dividend. The payouts should be safe and sustainable, given the portfolio's capacity to generate robust, stable, and secure returns on investment over the long haul. In the future, management anticipates the fragmented industry to consolidate, which should open acquisition opportunities in major industrial markets.

Top landlords

Unfortunately, REIT stocks took a big hit from the COVID-19 pandemic. Carolyn Blair, managing director of **RBC** Capital Markets Real Estate Group, said the REIT index wiped out five years of gain in a month.

Blair adds that recovery size and pace will likely have less to do with traditional REIT financial metrics and more to do with investor confidence. I would assume that Slate Grocery and Summit Industrial are among the top options in the real estate sector.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:SMU.UN (Summit Industrial Income REIT)

PARTNER-FEEDS

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

Category

1. Dividend Stocks
2. Investing

Date
2025/08/20
Date Created
2020/10/06
Author
cliew