



## Passive Income: A Canadian REIT With a Swollen (But Safe) 9% Yield

### Description

Many Canadian REITs have seen their share prices collapse at the hands of the horrific coronavirus. Office and retail real estate in particular have taken a brunt of the damage, as investors double down on their death-of-the-shopping-mall-and-office theses. Even before the novel coronavirus struck the world, many investors were wary of office- and retail-focused real estate plays in an era of ever-improving technologies.

Undoubtedly, the work-from-home (WFH) and e-commerce trends have benefited profoundly from this pandemic at the expense of various REITs. But does it make sense for affected REITs to be trading at a 50% discount to where they were just last year?

I don't think so. While the COVID-induced disruptions are undeniable, I think we'll witness a modest, gradual reversion in mean demand for both office and retail real estate. In the meantime, both hard-hit real estate sub-industries are likely to continue witnessing downtrending rent collection rates, as the next wave of this pandemic takes its toll on the cash flows of its less-robust tenants.

## Canadian retail REITs: Searching for deep value in an unloved industry

Although I am bullish on the prospects of hard-hit office and retail REITs over the long term, I'd discourage investors from reaching for the highest yields with the REITs that have seen their funds from operations (FFOs) implode.

Nobody wants to be on the receiving end of a distribution cut. It hurts too much. While it may make more sense to wait for seemingly inevitably distribution cuts to happen before jumping into a battered REIT, I think it makes more sense for income investors to consider more resilient REITs that can sustain their payouts through further waves of COVID-19 outbreaks. In essence, investors should seek to scoop up the babies that have been thrown out with the bathwater.

**SmartCentres REIT** ([TSX:SRU.UN](https://www.sru.un)) is one tremendously resilient retail real estate play that I believe is

worth buying right here, even as COVID-19 cases surge across the nation.

I've been loading up on shares of SmartCentres REIT at \$20 and change and will continue to do so on further weakness, because I think many investors are heavily discounting the REIT's resilience and long-term growth prospects. The retail-centric REIT faces profound near- to medium-term headwinds amid this pandemic. However, the longer-term fundamentals still appear strong, making the name a compelling deep-value play if you're not buying that the pandemic has caused the death of brick-and-mortar retail as we know it.

## Resilient tenants make for a resilient distribution

Look under the hood of SmartCentres, and you'll see that a huge chunk of its tenants are either essential businesses (**Wal-Mart** serves as a major anchor at 115 SmartCentres locations), meaning they'll remain open and cash flow generative in the event of future potential lockdowns, or high-quality businesses with strong liquidity positions ([Canadian Tire](#) has a 1.46 quick ratio) that are unlikely to miss a month's rent.

SmartCentres sports a 9% yield at the time of writing. It's unsustainably high, but I think it is a heck of a lot safer than similarly sized distributions of other retail or office REITs out there.

## Foolish takeaway on SmartCentres and bruised Canadian REITs

In short, SmartCentres is a misunderstood REIT that's in the [penalty box](#) because of the out-of-favour real estate sub-industry it operates in. If you're like me and don't think the pandemic is the final nail in the coffin for brick-and-mortar retailers, SRU.UN shares look like a pound-the-table buy here, as it embarks on its long-term plan to diversify away from malls and into mixed-use (residential/retail) properties — an endeavour that could unlock substantial shareholder value.

### CATEGORY

1. Coronavirus
2. Dividend Stocks
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### TICKERS GLOBAL

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

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