Market Crash: It’s a Bad Time to Be a Passive Landlord

Description

The idea sounds nice — being able to generate passive rental income from real estate investment trusts (REITs) without having to manage any real estate properties or deal with any hassle that comes with owning properties.

However, we’ve got to admit that owning a REIT portfolio is not entirely a passive investment. As this year’s price action showed, as a stock investor, you still need to keep an eye on what’s going on.

Market crash

Earlier this year, we had a market crash due to forced closures of parts of the economy to help reduce the spread of the novel coronavirus.

Retail REIT leader **RioCan REIT** saw its stock fall more than 50% from peak to trough. Other real estate industries weren’t exempt either.

Diversified REIT leader **Brookfield Property Partners** shrunk as much as 60%. Residential REIT leader **Canadian Apartment Properties REIT** declined by 40% from peak to trough.

Passive landlords could have woken up one morning to find their REIT portfolios much smaller than they left them. Rest assured that these stocks have recovered substantially from their lows.

Dividend safety

Passive landlords probably don’t care as much about their REIT portfolio values as long as the cash distributions (rental income) from the REITs remained intact. So far, the three REITs discussed above have kept their cash distributions intact. However, nothing is set in stone.

The dividend safety of a REIT can change any time. A number of REITs were forced to cut their cash distributions when their rental income contracted. One of the scariest examples is **American Hotel Income Properties**

, which has suspended its cash distribution since April. Instead of a passive-income investment, it has become a recovery-from-the-pandemic play.

If you had bought shares of American Hotel after the stock consolidated and stabilized at about $2.50 per unit, you would be sitting on price appreciation of roughly 50% already! That's much better returns than getting consistent rental income, but, of course, it defeats the purpose of being a passive landlord, because you'd be actively watching the markets and trading opportunistically.

Why it's a bad time to be a passive landlord

It was a great time to buy during the market crash earlier this year — just buying shares at *a low* would have allowed you to lock in a much higher yield.

However, REITs that still pay nice dividends have already recovered meaningfully from their lows. Their valuations and yields are now much less attractive.

REITs as potential buys

Here are some reasonably valued REITs you can check out. Industrial and residential REITs are viewed as relatively more defensive in the REIT world. Both **Granite REIT** and Canadian Apartment Properties REIT are trading at modest discounts of +10% from their 12-month price targets. They offer yields of 3.8% and 2.8%, respectively. These are not the biggest dividends but are some of the safest.

The Foolish takeaway

There are near-term risks in vaccine distribution or vaccine program execution. A prolonged pandemic situation could cause another market crash — perhaps not as severe as the one experienced in March, though.

If you have locked in high yields from the market crash earlier this year, congratulations. If not, and you're thinking of deploying new money now, you've got to be super careful which industry you allocate it in and how much you're investing.

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