



RioCan (TSX:REI.UN) Cut Its Dividend: Who's Next?

Description

RioCan Real Estate Investment Trust ([TSX:REI.UN](#)) dropped 6% this morning. Investors are dumping the stock after it announced a dividend cut for the year ahead. If you're a real estate investor or a RioCan stock holder, here's what you need to know.

RioCan stock dividend

RioCan stock has offered 12 cents in dividends every month since February 2018. Earlier this year, when the pandemic struck, RioCan CEO Ed Sonshine promised shareholders the dividend would remain steady. It seems the team has changed their mind.

The monthly dividend rate is set to drop to 8 cents a month from next year, a 33% drop. That means investors buying RioCan stock at today's price can expect a dividend yield of just 5.36% instead of the 8% investors have enjoyed for much of this year.

The problem seems to stem from the commercial segment of RioCan's portfolio. Malls, retailers and gyms have been shut for much of this year. In fact, several large commercial tenants have stopped paying rent entirely, clobbering RioCan's cash flows.

The company now has just \$60 million in cash and cash equivalents left on its books. That's nowhere close to the amount it pays in dividend every year, even after the recent cut.

Other REITs in peril

RioCan stock's hefty exposure to the commercial real estate sector is a key reason why the dividend payout is being cut. Businesses of all sizes have suffered this year. Many have declared bankruptcy and won't be returning to RioCan's properties even if the economy recovers next year.

This impacts other commercial landlords too. REITs with high payout ratios, low cash on hand and a portfolio exposed to commercial real estate could cut dividends in 2021. **SmartCentres REIT** and **Morguard REIT**, for instance, could be just as vulnerable.

Residential REITs could be in a better position, but not by much.

Canada's unemployment rate is still stubbornly high and government benefit programs are gradually coming to an end. Meanwhile, immigration has dropped to record lows and people have been working remotely for months, which means demand in major cities is likely to remain subdued.

Passive income

[Income seeking investors](#) might want to step away from the real estate sector and seek dividend elsewhere. The telecom sector, for instance, has held up remarkably well during this crisis. Data usage has skyrocketed as everyone works from home. Some of the largest telecom stocks now offer dividend yields on par with the REIT sector.

The utility sector has been just as resilient. Renewable energy and electricity providers have sustained their lucrative dividend rates throughout this year. They're just as likely to sustain their payouts in 2021 and beyond.

Bottom line

RioCan stock's dividend cut is a surprise for many investors. The management team tried to avoid this fate for months. But now that the dividend has been slashed by 33%, investors should brace for the pain to permeate across the sector. Other commercial landlords could be just as vulnerable as RioCan.

If you're still seeking a high dividend yield and passive income, the utilities or telecom sector would be better bets.

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