1 Great REIT for Big Monthly Income!

Description

REITs are a great source of monthly income, especially for retiree investors or those who are close to exiting the labour force.

Undoubtedly, real estate plays could be at risk of increased volatility, and the Bank of Canada raises the bar on interest rates. Despite the effect of higher rates, REITs are still a reliable source of income, as long as you've analyzed the security and quality of a REIT's adjusted funds from operations (AFFOs) or cash flows from REITs.

Though REITs can still be wildly volatile when the market swoons (look no further than the reaction of REITs during the 2020 stock market crash), it's the distributions that can help you keep your cool. A lot of REITs had to axe their distributions in 2020. But many held them intact, with little to no risk of a distribution reduction. Despite this, their shares still crumbled.

A Smart REIT in tough times

SmartCentres REIT (TSX:SRU.UN) was one of the REITs that wasn't really at risk of putting its big distribution on the chopping block. The distribution swelled well above the 8% mark. And while it's clear that the REIT got punished because of its retail focus, it should have been evident to investors that the payout was bound to survive. Lockdowns struck, and, as it turned out, Smart's tenants, many of which were essential, continued to draw in traffic.

Undoubtedly, most of Smart's tenants were at no risk of missing a month's rent. Though there were retail tenants that fell under pressure, Smart's AFFOs were relatively steady, and they eventually surged back close to normal levels.

Today, Smart REIT has all but rebounded. The same can't be said of some of the other low-quality REITs. Though Smart has rebounded, and investors fret retail exposure, I still think Smart REIT has room to run. Why? Not only are its high-quality tenants signed on for the longer term, but management is also poised to make a splash in residential real estate.

Unlocking value via strategic diversifying projects

As you may know, residential real estate is warranting of a higher multiple than a retail or office REIT. The only thing better than residential real estate is residentials that are close to sought-after retail. Indeed, Smart's pursuit of diversifying its property types could unlock value over the next 10 years.

For now, though, Smart is pursuing other initiatives to keep up with the times.

Today, the REIT's yield is a mere 6.1%. But given ambitious projects, it's arguable that the REIT should be worth more than where it was before the pandemic hit.

Few REITs are as well run as Smart, and for those seeking stability and resilience through what could be another few years of this pandemic (variants still linger out there), look no further than Smart. It's not just strip malls that you're getting with an investment in SRU.UN. You're getting quality tenants that are more than content. Further, you're getting brilliant management and a crisis-tested AFFO cash flow stream.

Bottom line

The best of Smart's rebound is already in the books. It's the REIT's resilience through COVID that should have investors excited about its long-term potential. Further, given the REIT houses many recession-resilient tenants, I think it's safe to say that SRU's distribution will survive the next economic drawdown, whether it's next year or the year after!

The $0.154 monthly distribution is safe and sound. Better yet, it could be subject to growth as the firm's new projects come online. Around 10,000 shares invested ($30,400 invested principal) in the REIT is enough to produce over $1,800 per year in passive income. That's over $155 that'll be flowing in monthly!

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