A Smart REIT With a Safe 6.3% Yield to Collect Through Tough Times

Description

There are many great REITs (real estate investment trusts) to buy on recent market weakness while their yields are slightly higher than where they are normally. Undoubtedly, the REIT space can be just as risky as stocks if you chase yield blindly without putting in ample due diligence. That means analyzing the cash flows as they stand today and how they could be impacted as the economic lights begin to dim. With interest rates poised to rise, the economic lights could go dark, and investors need to factor in how a REIT — like a company — will fare under a broad range of potential scenarios.

Things could get uglier for REITs

Indeed, nobody wants a worst-case scenario, but we have to factor in such. At this juncture, a bear-case scenario would see central banks (the U.S. Fed or Bank of Canada) hike rates until we fall into a recession. Perhaps they could continue raising rates, even after there's a bit of economic turmoil if inflation refuses to back down. Such a stagflationary environment would be terrible for almost every firm, including the REITs. In any case, investors must be prudent, as a hand landing is always possible, as the tightening cycle takes it to the next stage.

In this piece, we'll have a look at one great retail REIT that held its own far better than expected during the 2020 coronavirus recession. While the next economic downturn could be lengthier than the one endured during the initial stages of the pandemic, I still think the REIT outlined in this piece will hold its own and its AFFO (adjusted funds from operations) could continue supporting the distribution, even as economic conditions crumble.

Here in Canada, I view strong commodity prices as a pillar of support. Though a hard-landing type of prolonged recession may be out of the cards, I still think it's wise to err on the side of caution, given all the uncertainties that exist today.

SmartCentres REIT: A smart buy for tough times

Consider shares of **SmartCentres REIT** (TSX:SRU.UN), a well-run retail REIT that runs and operates strip malls located across the country. Retail was in a tough spot during the early days of COVID, but Smart was more than able to hold its own, with a vast majority of its tenants at minimal risk of missing a month's worth of rent. Pandemic-era lockdowns caused a bit of trouble for some tenants. But for the most part, Smart was never in any sort of turmoil, despite the massive slide in its share price.

Moving ahead, SmartCentres looks like a great bet to weather any economic damage or stagflation. Why? The REIT is anchored by **Walmart**, a big-box retailer that's the ultimate inflation fighter. Further, with a knack for offering the best prices out there, Walmart is sure to bring in the foot traffic when economic times get tough. It's not just Walmart that's Smart's source of strength. Many other top-notch retailers are on board, and they're doubtful to miss rental payments in any given month.

After the recent dip, Smart yields a whopping 6.3%-yield distribution. That's a rich payout that passive-income investors can rely on through turbulent times. At 4.8 times trailing earnings, SRU.UN shares seem like a stellar bargain right here, right now.

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