Taking a Diversified Approach to Real Estate

Description

People talk of real estate as if it's one investment that moves equally regardless of whether it's commercial or residential, in the U.S. or Canada, retail, office or industrial. Good thing for investors that's not the case. Though interest rates tend to govern over the entire industry, there are a lot of moving parts that can lead to very different returns in different areas of the real estate market. This is where diversification in real estate can smooth out the rough ride the markets are bound to thrust in our direction.

To focus on this theme of diversification, here's a look at 3 well-diversified Canadian REITs.

H&R Real Estate Investment Trust

With properties and projects on the books valued at approximately $10 billion, **H&R Real Estate Investment Trust** (TSX: HR.UN) combines diversification with size. The trust currently boasts a portfolio containing 53 million square feet made up of 40 office properties, 112 single-tenant industrial properties, 163 retail properties and 3 development projects.

The portfolio is home to some high profile buildings like The Bow located in Calgary as well as the nearby TransCanada Tower. Both buildings have long-term leases with high credit quality tenants. After the completion of the Primaris retail acquisition, the asset base of H&R became more diversified by asset class. Office now makes up 51% of fair value with retail and industrial making up 36% and 13%, respectively. Geographically, the REIT is rooted primarily in Ontario (38%) and Alberta (30%) with 17% in the U.S. and the rest spread across Canada.

During the first quarter, the company reported that funds from operations increased 24% to $90 million or $0.45 per share. Occupancy remained strong at 99% with an average term remaining on leases of 11.9 years and an average remaining term of 7.5 years on outstanding mortgages. The company continues to crank out distributions of $0.1125 per month implying an annualized yield of roughly 6.3%.

H&R is currently trading just above its 52-week low which may provide a good entry point.

Canadian Real Estate Investment Trust (CREIT)

Geographic and asset diversification is used to maximize returns at **CREIT** (TSX: REF.UN). The trust targets net operating income to be derived from 50% retail, 25% industrial and 25% office. In addition, the trust has properties located in several regions of Canada as well as the U.S. with a higher concentration in Alberta (37%) and Ontario (28%).

The REIT has a total of 194 properties and 19.8 million square feet. Currently the trust is producing near its net operating income target with 53%, 26% and 21% being generated by retail, office and industrial, respectively.

During the first quarter, funds from operations increased 8.7% to $46.7 million or $0.68 per share. Occupancy remained steady at 94.9% with a leverage ratio of 6.9. The leverage ratio indicates the number of years it would take for current cash flows to repay all debt. The dividend is not the strongest of the group, but at $0.1375 per month, the implied annual yield of approximately 3.8% is still respectable.

Cominar Real Estate Investment Trust

With nearly 500 properties in its portfolio, **Cominar Real Estate Investment Trust (TSX: CUF.UN)** has one of the largest diversified portfolios in Canada and is the largest commercial property owner in Quebec. The portfolio contains 36.9 million square feet spread across seven regions located in Quebec, Ontario, the Atlantic Provinces and Western Canada.

Cominar is more heavily weighted to office which generates 51.4% of operating income while the retail segment provided 25.1% and the industrial segment provides 22.5%. The REIT has a small residential segment that supplies the remaining 1% of operating income. Geographically, Cominar generates over half of its operating income from properties in the Montreal area. Quebec City provides approximately 20% and the remaining regions supply 28%.

During the first quarter the trust saw funds from operations slip 3.5% to $55.1 million or $0.43 per share. Occupancy slipped to 93.9% from 94.6% reported during the same period in the previous year. The debt ratio improved to 51.2% from 54.4% and the interest coverage ratio was 2.85. The trust currently distributes $0.12 per month to shareholders implying an annualized yield of approximately 7%.

Shares of Cominar have been weak as of late and trade near a 52-week low.

Final thoughts

Of course buying a diversified REIT is not the only approach to getting a mix of real estate sectors and geographic locations into your portfolio. One could always buy a basket of quality REITs each with a different focus and geographic footprint. However, that would require several hours of research and it may be difficult to get the proper mix of diversification. Let the management teams of these REITs do the hard work of building a diversified real estate portfolio for you.

REITs are perhaps best loved for their yield. If you're looking to diversify your sources of yield however, you need to **click here now** and download our special **FREE** report "**13 High-Yielding Stocks to Buy Today**". This report will have you rolling in dividend cheques from a variety of sources before you know it!

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1. Investing

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1. TSX:HR.UN (H&R Real Estate Investment Trust)

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