Is This Canada's Top REIT?

Description

There are many things that attract investors to Canadian REITs. Investors like REITs as an indirect way to invest in things like Canada's retail sector, our aging population, or even as a substitution for owning rental property. Investors also like the slow and steady growth of the sector, as well as the generous dividends. And finally, investors like that the sector generally protects their capital, especially during bear markets.

One of the strengths of the sector can also be one of its weaknesses; just how does an investor figure out which part of the sector they want to be in, anyway? Investing in an industrial REIT is going to be much different than a retail REIT. An apartment REIT is going to be different than a retirement residences REIT. The types of investments in the sector are extremely varied.

Just how is an investor supposed to decide?

We can start by going back to basics, looking at things like net asset value, debt to capital ratio, return on equity, and revenue growth. Payout ratio is also important, since a distribution cut will generally send a REIT tumbling.

Let's look at **RioCan** (TSX: REI.UN) first, Canada's largest REIT by market cap. RioCan is Canada's largest owner of shopping malls and other retail spaces, owning more than 54 million square feet. The company has also recently expanded into the United States, specifically in the Northeast and Texas.

RioCan grew revenue by 8.2% in 2013, impressive for a company with a $8.4 billion market cap. The company's debt-to-capital ratio is a solid 82%, and it enjoyed a return on equity of more than 10%. A return on equity of more than 10% is somewhat uncommon in the REIT universe, since companies are continually issuing shares to help finance acquisitions.

RioCan is trading at a slight premium to net asset value, and it's payout ratio has fallen to around 95% after a couple of years creeping above 100%. Overall, the financial metrics say RioCan is a solid REIT, albeit not a particularly cheap one.

Investors looking for a REIT with a better distribution growth profile should look at **Boardwalk REIT** (
TSX: BEI.UN

), Canada's largest owner of apartment buildings. Its payout ratio for 2013 was a mere 73% of its adjusted funds from operations, and the company trades at a discount of approximately 7% of its net asset value.

Boardwalk also generates a 10.6% return on equity, has a debt-to-capital ratio of 54%, and grew its revenue by more than 5% during 2013. From a financial position, Boardwalk is in far better shape than RioCan.

Boardwalk is also positioned to perform well if Canadian housing stumbles, since it should have more prospective tenants vying for limited spaces.

The company's current dividend is just 3.2%, but investors are clearly pricing in distribution growth in the future, considering the company's low payout ratio and solid balance sheet. Look for Boardwalk to beef up its portfolio in the near future.

And finally, we have **Dundee REIT** (TSX: D.UN), the owner of 28 million square feet of Canadian office space across 186 properties. The company has a solid payout ratio of 90% of adjusted funds from operations, meaning the company's 7.5% dividend yield is relatively safe. The company's net asset value is more than $36 per share, a 21% premium over the $29.54 share price.

Dundee's debt-to-capital ratio is a solid 0.77, its return on equity is 12.68%, and it grew its revenue more than 13% during 2013. It also hasn't recovered from the sell off that plagued the entire REIT sector during the summer of 2013, where it traded at a level close to its net asset value.

Dundee's list of tenants are about as solid as you can get. Four of its top five tenants come from various levels of government, and the rest are among the leaders in Canadian business. Occupancy rate is a little low at 94.2%, but the company sees it ticking back up in the near future.

Canada has some attractive REIT names, but Dundee might be the best combination of solid results, tempting dividend, solid balance sheet, and temporarily beaten-up share price. Investors can hold the name until the market gives it the respect it deserves, and get paid to wait. Dundee is a solid REIT that deserves a spot in any investor's portfolio.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BEI.UN (Boardwalk Real Estate Investment Trust)
2. TSX:D.UN (Dream Office Real Estate Investment Trust)
3. TSX:REI.UN (RioCan Real Estate Investment Trust)

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