



3 Must-Buy REITs for Income Seekers

Description

I continue to recommend Canada's REIT sector for investors looking for a nice blend of income and capital gains.

My reasoning is twofold. First of all, I don't envision interest rates rising in a sustained way for years. Not only is there simply too much debt in the system for rates to rise much without putting strain on the government's ability to continue servicing debt, but economic growth is just too tepid to support rate hikes. These two factors could keep rates low for years, possibly even a decade. Hey, it happened in Japan.

Secondly, there's a whole generation of baby boomers who should be shifting their investments from equities into fixed income. Since most fixed income yields are a pittance these days, safe equities with high yields are going to become an attractive alternative. Wouldn't you rather own a REIT that has a 6% yield with capital gains potential than a bond that yields 3% without any potential gains? I sure would.

Investors don't even have to look that far for the best REITs for their portfolios. Some of the biggest names in the business still offer compelling reasons to buy. Here are three that are good choices for investors looking for income.

1. Dream Office REIT

One thing REIT investors should look for is the quality of property a company owns. If it owns old, run-down buildings or places with poor locations, that could be a red flag.

This isn't the case for **Dream Office REIT** ([TSX: D.UN](#)), which owns some of Canada's largest office towers, located downtown in some of our largest cities. More than 60% of its 186 office buildings are located in two of the hottest markets in the country — Calgary and Toronto.

The company's tenants are also second-to-none. Its top 10 renters include the likes of **Bank of Nova Scotia, Enbridge, Telus**, and various levels of government. These titans of Canadian commerce aren't about to start skipping out on rent cheques.

Plus, thanks to a little short-term weakness, investors who buy now are looking at a yield of 7.6%. It's not unreasonable to expect a total return of 10% from Dream's shares going forward. That's decent, especially for an investment mostly bought for income.

2. Cominar REIT

Even though **Cominar REIT** (TSX: CUF.UN) is mostly located in Quebec — which is arguably Canada's weakest province, at least economically — it still represents a good buy for income investors.

It has one of the highest yields in the sector, coming in at 7.6%. It also has a terrific record of growth, doubling its revenue from 2011 to 2013, thanks to several acquisitions. The company continues to buy up rivals, spending more than \$350 million to gobble up property so far in 2014, with a focus on the Toronto area.

Cominar is extremely diversified. Sure, the majority of its properties are located in Quebec, but it owns a significant amount of retail, office, and industrial property. This obviously helps it on the acquisition front, since it isn't limited to one specific type of building.

Additionally, management owns more than 7% of the company. In the REIT world, that's a lot. I like when management has their own skin in the game.

3. RioCan REIT

RioCan (TSX: REI.UN) is by far the biggest REIT in Canada, and for good reason. It's a terrific operator, has unbeatable locations, and has a solid growth plan in place. Even though the internet is slowly killing retail, it's going to be a long time before RioCan's locations are affected in a major way.

Besides, if your local shopping mall is anything like mine, you'll notice a trend. As stores close down, professional offices open. I regularly go to a mall that has a chiropractor, an optometrist, a mortgage broker, and an insurance agent. These professionals benefit from the foot traffic, and the mall collects their rent. It seems like a win-win to me.

The company has recently been expanding extensively in the United States, buying up enough property that more than 15% of its revenue now comes from down south. This expansion should mean investors will get a raise on the company's 5.2% dividend sometime soon.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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