3 Reasons Calloway Real Estate Income Trust Is a Great Buy

Description

Thanks to anemic returns from bonds, GICs, and other fixed income products, dividend investors have been forced to look elsewhere for yield.

REITs have been a popular choice. The sector tends to offer high current yields, not a whole lot of growth, and steady payouts. For investors looking for income-producing investments, these are all good qualities. Even the highest quality REITs tend to yield in the 5-6% range. Investors will be hard pressed to find a common stock with a similar dividend without some major question marks.

And thanks to the threat of interest rates going up in 2015, the entire REIT sector has sold off close to 10%. Even if interest rates do creep up a little, investors who buy into the sector now are still getting decent yields. Besides, overall economic numbers aren't that good. I predict low interest rates are still going to be around for a while. Even if the U.S. Federal Reserve does one or two rate hikes, a repeat of high interest rates from the 1980s just isn't going to happen.

With that in mind, I think now is a great time to buy **Calloway Real Estate Income Trust** (TSX: CWT.UN). Here are three reasons why.

1. Strong main tenant

Calloway is a retail REIT, holding 128 retail locations with more than 27.5 million square feet in leasable space. It has an additional eight locations in development, which will add 3 million square feet of space.

Unlike chief competitor **RioCan Real Estate Investment Trust** (TSX: REI.UN), Calloway has a much more concentrated tenant base. RioCan's top 10 tenants combine for just 27% of the company's revenue. Calloway, meanwhile, has one tenant anchoring 79% of its retail developments, accounting for approximately a quarter of its rental revenue.

This would concern me, but the major tenant is **Wal-Mart Stores Inc** (NYSE: WMT). Because Wal-Mart draws so many other tenants (and customers) to the locations it anchors, Calloway greatly benefits. The company's occupancy ratio has sat at over 99% for 16 consecutive quarters, in part thanks to the relationship it has with Wal-Mart.

Calloway also has the newest portfolio of any large-cap REIT in Canada, with an average annual age of just 11 years. This saves on maintenance costs, and serves as another tool to help draw tenants.

2. Great payout ratio

Most REITs have a payout ratio of approximately 90-95% of funds from operations. Anything over 95% is generally considered a red flag, and anything under 90% is considered quite strong. A REIT with a lower payout ratio has more flexibility to pay down debt or increase the distribution.

In August, Calloway reported its second-quarter numbers. Results were great, including growth in revenue, funds from operations, and net income. But the most important factor? It cut its payout ratio to just 84%.

Going forward, management has expressed an interest in keeping the payout ratio between 82% and 87%. That type of conservative thinking should bode well for the security of future dividends.

3. A 6% yield

Calloway has spent the last few years expanding, working with Wal-Mart to open up new locations and acquiring other locations in an attempt to diversify away from its biggest tenant. As a result, its distribution was steady, but it didn't grow.

This changed when the company released its great second quarter numbers. Included was a distribution increase from $1.55 per unit to $1.60 per unit on an annualized basis.

Based on the new distribution of 13.3 cents per unit per month, the company's shares yield 6%. Considering the low payout ratio, the quality of the company's main tenant, and the impressive growth on both the top and bottom line, 6% is a great yield.

The bottom line? Calloway is performing well. It's a great choice for any investor looking for dependable income.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:WMT (Wal-Mart Stores Inc.)
2. TSX:REI.UN (RioCan Real Estate Investment Trust)
3. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)

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