



Which REIT Is the Best Bet for Income Investors: Dream Office REIT or RioCan Real Estate Investment Trust?

Description

Dream Office REIT ([TSX:D.UN](#)) and **RioCan Real Estate Investment Trust** ([TSX:REI.UN](#)) have a lot in common. Both firms pay big yields, both are popular among income investors, and unless you want to become a landlord, both provide a good alternative to owning rental properties.

That's why it can be tough to choose between these two firms. So, which trust is a better bet for income? Let's see how the two firms stack up on a range of measures.

1. Yield: No contest here. Dream yields 8.3%. That's more than three percentage points higher than RioCan's 4.9% payout. If you're looking for current income, Dream is your best bet. *Winner: Dream*

2. Payout growth: Of course, we have to dig a little deeper than that to analyze the quality of a distribution. Payout growth is equally important. We want to ensure that our income stream can rise faster than inflation over time. Throughout the past decade, Dream has increased its distribution by only a meager 2%. RioCan, in contrast, has hiked its payout by a respectable 15% over the same period. *Winner: RioCan*

3. Earnings growth: Future distribution hikes depend upon growing profits. RioCan is expected to deliver a healthy 5% increase in funds from operations, or FFO, this year. Dream, however, isn't expected to deliver any FFO growth in 2015, thanks to a glut of office properties. *Winner: RioCan*

4. Reliability: RioCan has paid a distribution to unitholders every month since 1994, one of the longest streaks of consecutive payments in Canada. Dream has a long track record of rewarding unitholders, too. However, the trust has only been mailing out cheques to investors since 2003. *Winner: RioCan*

5. Safety: Both trusts are built to last. RioCan has only 45 cents in net debt to every dollar in market capitalization—one of the strongest balance sheets in the industry. Dream has financial wiggle room, too. However, the trust's debt load is more elevated, with nearly 50 cents in net debt for every dollar in equity. *Winner: RioCan*

6. Valuation: Investors have soured on Dream. Today, the trust trades at only 9.4 times trailing FFO.

The stock is so cheap that management announced a major buyback program. They plan to repurchase up to \$150 million of units during the first half of 2015. RioCan, however, trades at a premium 17 times trailing FFO. That could leave units vulnerable to a sell off if results disappoint.
Winner: Dream

And the results are in...

As I said, I like RioCan and Dream. They are excellent trusts and pay reliable distributions. Both deserve a place in any income portfolio.

That said, RioCan's longer history, better growth prospects, and relative safety gives it the slight edge in my books. If you can only own one REIT, this is the trust to hold.

CATEGORY

1. Dividend Stocks
2. 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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Author

rbailieul

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