



## Need Dependable Income? Calloway Real Estate Investment Trust Is the Answer

### Description

It's been the same story for years now: Investors looking for dependable income of more than 2% per year are in a tough spot.

The Bank of Canada isn't helping things either. When the bank lowered interest rates back in January, investors reacted by bidding up the price of assets most associated with yield. Prices have since come back down a bit, but most interest-sensitive stocks currently trade at pretty elevated levels.

Additionally, metrics like price-to-earnings ratios for these stocks are also higher than normal, since investors are willing to pay a premium for dividends they can count on.

In short, it's not easy finding solid dividend choices in a world where interest rates are essentially zero.

Fortunately for investors, there are a few choices that offer good yields that are also reliable. One of my favourites in the REIT sector is **Calloway Real Estate Investment Trust** (TSX:CWT.UN). Here's why you should consider adding this name to your income portfolio.

### A strong moat

In the real estate business, there are a couple of ways a company can build up an advantage over its competitors. A company can acquire high quality properties that can't easily be replicated. Or it could be the biggest in the sector, using its clout to consolidate its position. That's exactly what **RioCan** has done over the years.

Calloway has a different strategy. It has partnered up with **Wal-Mart Stores Inc.** ([NYSE:WMT](#)) to become the go-to choice for developments, with a Wal-Mart as the anchor store. Out of the company's 121 retail developments, 77 are anchored by a Wal-Mart store. The world's largest retailer accounts for approximately 25% of Calloway's square footage.

There are a few advantages to having Wal-Mart as your largest tenant. First of all, the company is smart in choosing its expansion locations. Just about every Wal-Mart in Canada is consistently busy. Additionally, Wal-Mart's busy foot traffic is a plus for other retailers in the location because some of that traffic is likely to filter over to other stores.

These advantages are why Calloway's occupancy rate is currently above 99%. That's about as good as you're going to get for any REIT.

### **Reasonable valuation**

Considering Calloway's history as a great operator and consistent payer of dividends, it trades at about an average valuation.

The company reported funds from operations of \$1.95 per unit in 2014, which was an increase of 7.2% compared to the year prior. Most of that improvement is from a series of acquisitions the company did in late 2013, including buying some stores from Wal-Mart Canada.

That puts the stock at a pretty reasonable 14.8 times its funds from operations. In comparison, RioCan, its largest competitor, trades at 16.8 times its FFO. And that's after a bit of a sell off in that stock.

I believe that Calloway will eventually trade at a comparable valuation to RioCan. That means investors are looking at an upside of approximately 14% just on that gap narrowing.

### **The payout**

REIT owners in general have seen their shares do extremely well over the last decade, partially buoyed by low interest rates. There's no guarantee of that same price appreciation in the future.

But what we can expect is for Calloway to continue paying out its dependable 5.5% dividend. The company also recently increased its payout by almost 4%, and still plans to pay out approximately 75% of its funds from operations in 2015. Those are the kinds of numbers great dividend stocks are built on.

With a generous dividend, great operations, and the strength of Wal-Mart behind it, Calloway is among the best retail REITs. You might not see huge capital gains from owning this stock, but the income spun off by the company is about as consistent as it gets.

### **CATEGORY**

1. Dividend Stocks
2. Investing

### **POST TAG**

1. Editor's Choice

### **TICKERS GLOBAL**

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

## Category

1. Dividend Stocks
2. Investing

## Tags

1. Editor's Choice

## Date

2025/08/27

## Date Created

2015/03/10

## Author

nelsonpsmith

default watermark

default watermark