



RioCan Real Estate Investment Trust: Is Now a Good Time to Buy This Forever Company?

Description

In the world of retail REITs, it doesn't get much better than **RioCan Real Estate Investment Trust** ([TSX:REI.UN](#)).

When the company first came into existence in 1992, the biggest issue was explaining to potential investors what a REIT actually was. In 1994 the company started trading on the Toronto Stock Exchange, and the rest is history. 21 years later, the company owns 340 different retail developments in Canada, totaling more than 79 million square feet. It has also expanded into the United States, with 48 different locations surpassing 13 million square feet. The company's total capitalization is more than \$15 billion.

Needless to say, it's come a long way since 1992.

While it's easy to look backwards and be impressed with management's accomplishments, successful investing doesn't focus on the rearview mirror. Can RioCan continue to perform into the future? Let's take a closer look.

Growth potential

RioCan has two potential growth avenues. It can either develop new properties or make acquisitions. These days, it's doing a little of both.

Just last month, the company entered into an agreement with **Hudson's Bay Co** (TSX:HBC) to form a real estate joint venture. Hudson's Bay is going to provide the real estate, while RioCan provides the new company with a much needed cash infusion, as well as management expertise. After making a few acquisitions to diversify the venture away from being exclusively anchored by Hudson's Bay stores, it will likely get listed on the TSX.

RioCan is also developing some of its existing property. By taking unused land and using it to build condo towers and office space, RioCan has development costs that are much lower than competing builders. It helps when you've already paid for the land. Its buildings also prove popular with tenants,

since a bevy of retail locations are just outside their door. There are 40 such developments planned.

Value

Here's where the RioCan investment thesis gets a little weaker. In a world of ultra-low interest rates, investors are willing to settle for lower yields.

RioCan's shares currently yield just 4.9%. That's a great choice if your alternative is a GIC or a government bond, but in the world of retail REITs, RioCan has one of the lowest yields out there. **Calloway Real Estate Trust**, a competitor in the sector, has a current yield of 5.5%. A difference of 0.6% doesn't sound like much, but it does add up. On a \$50,000 investment in both, an investor is looking at \$300 extra in dividends per year from Calloway.

In 2014, RioCan earned \$1.65 in funds from operations (FFO) per share, which puts it at about a five-year average on that metric. But the company is hardly cheap; most of the sector trades at a price-to-FFO ratio of between 10 and 15. Basically, investors are willing to pay a bit of a premium for RioCan, which is well deserved based on the company's history.

What about rates?

Investors in REITs have to be worried about what will happen when interest rates inevitably go up. Will RioCan's shares get crushed?

In 2013, there was a preview of what could happen in that scenario. The Federal Reserve was starting to remove stimulus from the economy, which led to speculation that higher rates were just around the corner. REITs did not perform particularly well during this time. From peak to trough, RioCan fell about 25%.

There's definitely a risk that RioCan could experience a similar fall if rates actually do start to go up in a meaningful way. If you're looking at RioCan today, it's imperative that you keep this in mind. It might pay to wait, but there's little indication that the Bank of Canada is looking to raise rates soon. You could be waiting a long time for a better yield.

At this point, I'd consider RioCan fairly valued. For someone who's looking for shares to tuck away for a long time, this isn't such a bad entry point. For a company this highly regarded, I'm not sure there's ever a bad entry point.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:REI.UN (RioCan Real Estate Investment Trust)
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

2015/03/26

Author

nelsonpsmith

default watermark

default watermark