



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

Description

Real estate can be a profitable investment—but it's not for everyone.

If you're thinking about buying a rental property, you need to understand what you're getting into. There's much more to being a landlord than just putting up an ad on Kijiji—it's like taking on a second job.

That's why real estate investment trusts, or REITs, are becoming such popular investments. As regular readers know, these firms own properties and pass on the profits to their unitholders. Today, thousands of people use them to collect monthly rental income without becoming a landlord.

Boardwalk REIT ([TSX:BEI.UN](#)) and **RioCan Real Estate Investment Trust** ([TSX:REI.UN](#)) are two of my favourites. Both firms pay big yields and both are popular among income investors. And unless you want to deal with tenants, both provide a good alternative to owning rental properties.

So, which trust is a better bet for income? Let's see how these firms stack up on a range of measures.

1. Yield

At first glance, RioCan is the obvious choice. Today, the trust yields 4.9%, which is nearly one-and-a-half percentage points over Boardwalk's payout. However, that doesn't give a full picture as to how much cash these firms return to unitholders.

In addition to its normal distribution, Boardwalk uses its extra cash to buy back units and pay down debt. Not to mention the company announced an enormous special distribution in December. That usually goes unrecorded by most popular investment websites like *Yahoo! Finance*.

If you use a more holistic approach to calculating yield—including buybacks, distributions, and debt repayments—Boardwalk sports a jaw dropping 8.2% payout. *Winner: Boardwalk*

2. Payout growth

Of course, we have to dig a little deeper than yield to analyze the quality of a payout. Distribution growth is also important. We want to ensure that our income stream can rise faster than inflation over time.

Over the past decade, RioCan has increased its distribution by only a meager 2.5%, barely enough to keep up with rising prices. Boardwalk, in contrast, has hiked its payout by a respectable 5% per year during the same period. *Winner: Boardwalk*

3. Earnings growth

Future distribution hikes depend upon growing profits. However, evaluating a REIT is a little different than evaluating an ordinary stock. In the real estate business, we use funds from operations, or FFO, to measure a firm's performance in lieu of earnings.

According to analyst estimates, Boardwalk is expected to post a tidy 7% increase in FFO this year. RioCan is also projected to deliver solid numbers, with a 5% FFO bump in 2015.

Winner: Boardwalk

4. Reliability

Yield and growth are all fine and dandy, but will these payouts hold up when times get tough? There's nothing worse for dividend investors than watching their stream of income dry up.

That said, RioCan has paid a distribution to unitholders every month since 1994—a period that included three recessions. Boardwalk has a long track record of rewarding unitholders, too. However, the trust has only been mailing out cheques to investors since 2004. *Winner: RioCan*

5. Safety

Boardwalk's apartment buildings are some of the most reliable assets around. People always need a place to live. Rent is generally the last bill people skip when times get tough. RioCan, in contrast, is focused much more on retail and commercial properties. These tend to be more vulnerable to the ups and downs in the business cycle. *Winner: Boardwalk*

6. Valuation

Boardwalk units are down sharply this year, hurt by fears that lower oil prices could crimp the rental business in Alberta. As a result, the trust now trades at a reasonable 15 times estimated 2015 FFO. RioCan units, by comparison, are *up* more than 11% year-to-date and trade at a significantly higher 18 times forward FFO. This rich multiple could leave units exposed to a selloff if results disappoint.

Winner: Boardwalk

And the results are in...

As I said, I like RioCan and Boardwalk: they're both excellent trusts; they both pay reliable distributions; they both deserve a place in any income portfolio.

That said, Boardwalk's safety, bigger yield, and better growth prospects 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:BEI.UN (Boardwalk Real Estate Investment Trust)
2. TSX:REI.UN (RioCan Real Estate Investment Trust)

Category

1. Dividend Stocks
2. Investing

Date

2025/07/05

Date Created

2015/03/30

Author

rbailieul

default watermark

default watermark