Which REIT Is the Best Bet for Income Investors: Canadian REIT or H&R Real Estate Investment Trust?

Description

Canadian REIT (TSX:REF.UN) and **H&R Real Estate Investment Trust** (TSX:HR.UN) have a lot in common.

Both firms pay big yields. Both are popular among income investors. And unless you like fixing clogged toilets or chasing down rent cheques, both provide a good alternative to owning rental properties.

That's why it's tough to choose between these two firms. So today, we're tackling the following question: Which real estate investment trust (REIT) is a better bet for income?

Let's see how the two trusts stack up on a range of measures.

1. Yield: No contest here. H&R yields 5.7%. That's a full two percentage points higher than Canadian's 3.7% payout. So, if you're looking for current income, H&R is your best bet. *Winner: H&R*

2. Distribution growth: Of course, we have to dig deeper than that. Growth is equally important. We want to ensure our distribution income can keep up with inflation. Over the past five years, Canadian has hiked its payout by about 5% annually. That's great, but it's not as good as H&R. The trust has raised its payout by more than 13% per year during the same period. *Winner: H&R*

3. Earnings growth: Of course, future distribution hikes can only come from growing profits. However, we have to evaluate a REIT a little differently than an ordinary stock. In the real estate business, we use funds from operations (FFO) to measure a firm's performance in lieu of earnings. According to analyst estimates, H&R and Canadian are expected to post 2% and 4% FFO, respectively, per share growth this year. *Winner: Canadian*

4. Distribution history: We need to evaluate security, too. Nobody wants to see their income stream dry up without warning. That said, Canadian has mailed a cheque to investors every month since 1993—a period that included three major recessions. H&R has a long track record of rewarding unitholders, too. However, the firm has only been paying distributions since 2009. *Winner: Canadian*

5. Safety: The payout ratio is another important metric to measure security. Canadian pays out only 60% of its FFO to unitholders, giving the trust plenty of wiggle room if business sours. H&R's payout ratio is a tad more elevated, but it's still a conservative 75%. *Winner: Canadian*

6. Valuation: REITs have sold off hard in recent weeks as investors worry about a slowing economy. Today, each trust trades at roughly 14 times forward FFO, which is below their historical averages and in line with peers. *Winner: Draw*

And the results are in…

As I said, I like H&R and Canadian: they're both excellent trusts, they pay reliable distributions, and they both deserve a place in any income portfolio.

That said, Canadian's long track record, faster growth, and relative safety gives it the slight edge in my books. Plus, they own some of my favourite office buildings on the Halifax Waterfront—so I'm a little bit biased. If you can only own one REIT, this is the trust to hold.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:HR.UN (H&R Real Estate Investment Trust)

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Date
2025/08/28
Date Created
2015/04/10
Author
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