# Income Seekers: 3 Retail REITs With up to 5.8% Yields

## Description

Real estate investment trusts (REITs) are known to give higher than average yields. Among the available REITs, retail REITs are popular. Retail REITs own and rent out retail properties including shopping centres. Investors in these trusts will receive distribution paychecks on a monthly basis.



Though it's different for every REIT, distributions can consist of a combination of rental income, return of capital, and possibly foreign income.

Here are three different retail REITs for income investors to consider. **RioCan Real Estate Investment Trust** (TSX:REI.UN), **Calloway Real Estate Investment Trust** (TSX:CWT.UN), and **Plaza Retail REIT** (TSX:PLZ.UN).

**1. RioCan**

RioCan is probably the most well-known, being Canada's largest REIT with an enterprise value of about $16 billion as of the end of March 2015. RioCan owns and manages Canada's largest portfolio of shopping centres with ownership interests in 353 retail properties in North America.

84% of its annualized rental revenue comes from Canadian rental properties, while 16% comes from the United States.

Since 1998 to the present, RioCan has never cut its distribution and actually increased it occasionally along the way. At $26.8 per unit, its yield of 5.3% certainly beats interests received from savings accounts, GICs, or bonds.

If investors could capture its units around $24, that'd be a fairer price. With potential interest rate hikes, it's certainly possible REITs could dip further.

**2. Calloway**

Calloway REIT is going to be rebranded as SmartREIT after acquiring SmartCentres. SmartREIT will now have a total of 30.9 million square feet of retail and mixed-use properties. The retail assets will be branded as SmartCentres, while the mixed-use properties, including office and residential developments will be branded as SmartUrban.

Further, SmartREIT will continue its 20-year strategic relationship with **Wal-Mart Stores Inc.** across Canada. In fact, the combined business will have 107 Wal-Mart-anchored sites.

Since initiating a monthly distribution in 2002, Calloway has never cut it. Between 2003 and 2014, it has raised its distributions on an annual basis except freezing it between 2008 and 2013.

At $28.70 per unit, Calloway yields 5.8%. Watch out for its ticker change to SRU.UN to leverage off of SmartCentres' brand equity.

It's fairly-priced today and has higher growth potential than RioCan.

**3. Plaza**

Plaza is a leading retail REIT in Eastern Canada with a market capitalization of 395 million. It owns 306 retail properties including strip plazas, single-use properties, and enclosed malls. It has established an outstanding track record of consistently increasing cash flows and profitable growth, leading to higher income for investors every year.

Plaza REIT distributions



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*Source: Plaza REIT website*

It has increased income for its investors for 13 years in a row. Anticipating that it will pay out an annualized distribution of $0.25 per unit, including this year, in a five-year period, Plaza would have increased distributions at a CAGR of 5.6%.

At $4.30 per unit, Plaza yields 5.8%. Given that it is the smallest of the three retail REITs, it has the highest growth potential. It is also priced at a 5-10% discount according to its historical multiple.

**In conclusion**

All three retail REITs generate a solid income. If you want scale, you should go with RioCan, but wait for further dip to at least $24.

Both Calloway and Plaza yields 5.8%, but for investors who are comfortable with holding a smaller company, Plaza should provide a higher return in both capital gains and income growth. If not, then SmartREIT offers moderate growth while you get the same 5.8% to start.

Lastly, if you don't mind tracking the cost basis, it's actually tax-efficient to hold REITs in the nonregistered (taxable) account if a large portion of their distributions is from return of capital. Essentially, the return of capital reduces the cost basis and so is taxed on the sale of the REIT units or until your adjusted cost basis becomes negative.

However, if you wish to avoid this hassle, then, you should purchase REITs in your TFSA or RRSP.

**CATEGORY**

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

**TICKERS GLOBAL**

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

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