



Income Investors: Get the Safest Yield From Canadian REIT

Description

If you're looking for high-quality income, start with **Canadian REIT** (TSX:REF.UN). It pays a 4.1% yield at about \$43 per unit. It is one of two real estate investment trusts (REITs) that have paid a growing distribution for over 10 years, and it sits at the top spot with 13 consecutive years of increases. If you're curious, the other REIT is **Plaza Retail REIT**.

The business

Canadian REIT is the first publicly listed REIT in Canada. Since being listed in 1993 its business objective has been to accumulate high-quality property assets. These assets help the REIT maintain a high occupancy level and high rental rates. Since 1994 its occupancy level has never gone below 95%.

Canadian REIT is a diversified REIT that aims to receive 50% of rental income from retail properties, 25% from office properties, and 25% from industrial properties. Its industrial portfolio is made of short lease terms that allow for rental adjustments with income-growth potential.

Then, there's its office portfolio. Of the three property types, occupancy levels and rental rates are the most volatile in the office portfolio. To reduce risk, the Canadian REIT sells 50% of the interest in its major office properties to a non-managing partner, and receives additional income for managing and leasing the co-owner's interest in the properties.

Track record

From 1993 to 2013 Canadian REIT's assets grew from \$84 million to \$3.9 billion, an annual growth rate of 21%. And between 1994 and 2013 its funds from operations grew from \$0.63 per unit to \$2.84 per unit, an annual growth rate of 8.25%.

As the business expands, the REIT has been rewarding shareholders. More recently, over five years its distribution increased at a compound annual growth rate of 5%, while maintaining a payout ratio of below 62%.

With Canadian REIT's focus on quality and its prudent business model, it is not surprising that its returns outperform its peers and the market. At 2014's year end, Canadian REIT's three-year annualized return was 13%. Compare that return with the **S&P/TSX Capped REIT Index's** 7%, and **S&P/TSX Composite Index's** 10%.

Management alignment

Each board of trustee member is required to invest at least \$250,000 in the REIT while the president and the chief executive officer have larger ownership requirements. Additionally, over 90% of its employees are shareholders. This alignment of interest helps in the success of the REIT.

In conclusion

I believe Canadian REIT is fairly priced at about \$43. Its yield of 4.1% is at the high end of its four-year range.

Canadian REIT is not a high-flying kind of stock. It's a steady and stable income vehicle that provides a starting income of 4.1%. That high-quality income, growing from 3-5%, should give you long-term returns of 7-9%.

Tax treatment of distributions are different from the typical dividends. To avoid tax-reporting headaches, buy and hold Canadian REIT in a TFSA or RRSP.

CATEGORY

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2. Investing

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