# Canadian REIT: a Quality REIT With a 4.4% Yield

## Description

Real estate investment trusts (REITs) offer an easy way for anyone to invest in real estate and receive monthly income. Simply buy units of the REITs that you like on the stock exchange as you would buy a stock.

By focusing on quality REITs, investors can easily hold on to them for monthly income. Here is a quality REIT worth your time.



### Canadian REIT: a quality REIT

**Canadian REIT** (TSX:REF.UN) is an owner, developer, and manager of retail, industrial, and office real estate. The REIT has a diversified portfolio of high-quality real estate assets.

Canadian REIT was first listed on the Toronto Stock Exchange in 1993. Over the last five to 10 years the REIT had increased funds from operations (FFO) at a compound annual growth rate (CAGR) of about 5%.

As of the end of September it accumulated 187 properties with 25 million square feet of gross leasable area, and 11 properties are under development. Total assets are worth $5.5 billion.

Since 2000, Canadian REIT has consistently maintained occupancy levels of 94-97%. Even with the recent economic downturn, the quality REIT still has an occupancy rate of 95%.

### Distribution growth

Canadian REIT is one of two Canadian REITs that has increased distributions for at least 12 consecutive years. Its consistent FFO growth and low-risk business model have allowed the REIT to increase distributions for 13 consecutive years.

Since 2010, Canadian REIT has increased its distributions by over 27%, or a CAGR of 5%. With a low FFO payout ratio of under 60%, there's room for the REIT to continue growing distributions next year and beyond.

**Outperform**

If you had bought Canadian REIT three, five, or 10 years ago, you would have outperformed the **S&P/TSX Capped REIT Index** by 3-6% and the **S&P/TSX Composite Index** by 3-8% depending on the time frame chosen. This is assuming that all dividends were reinvested.

**Asset and rent diversification**

By asset class, 55% of Canadian REIT's net operating income (NOI) comes from retail properties, 23% comes from industrial properties, and 22% comes from office properties.

Geographically, 38% of NOI comes from Alberta, 27% comes from Ontario, 13% comes from the Atlantic region, 11% is from Quebec, 8% is from British Columbia, 1% is from the Prairies, and 2% is from the United States.

Its top 10 tenants contribute 20.7% of revenue. **Canadian Tire** is its top tenant, representing 6.4% of revenue.



**Valuation**

Based on its normal trading multiple, Canadian REIT is trading at fair valuation and is moderately discounted by 8-10%. Based on its net asset value per unit of $44.79, the shares are discounted by 8.8%. So, $40.80 per unit is a good entry point for Canadian REIT.

**Tax on the income**

REITs pay out distributions that are unlike dividends. Distributions can consist of other income, capital gains, foreign non-business income and return of capital. Other income and foreign non-business income are taxed at your marginal tax rate, while capital gains are taxed at half your marginal tax rate.

On the other hand, the return of capital portion reduces your adjusted cost basis. This means that that portion is tax deferred until you sell your units or until your adjusted cost basis turns negative. So, if you buy REIT units in a non-registered account, you'll need to track the change in the adjusted cost basis. The T3 that you'll receive will help you figure out the new adjusted cost basis.

**In conclusion**

I wouldn't say Canadian REIT is on sale. However, buying its quality shares at today's fair to moderately discounted price, Foolish investors can expect long-term steady capital appreciation, while receiving a stably growing income that starts with a 4.4% yield.

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kayng