



## 3 Reasons to Buy These Top REITs

### Description

Real estate is perfect for long-term investors because they're typically meant to be held for the long term, so you can receive stable rents. If you don't want to manage properties and tenants on your own, you'll need to pay someone else to manage them for you.

Alternatively, you can buy real estate investment trusts (REITs). You can buy and hold them just like stocks. Just like choosing quality properties based on a number of factors, investors should also carefully choose the REITs they want to own.

I believe **Canadian REIT** (TSX:REF.UN) and **Plaza Retail REIT** ([TSX:PLZ.UN](#)) are good choices. Here are three reasons why.

### Quality businesses

Canadian REIT owns, develops, and manages retail, industrial, and office real estate. The REIT has a diversified portfolio of high-quality real estate assets. It has 187 properties and 11 properties that are under development. Those assets total 25 million square feet.

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%.

Plaza Retail REIT is a leading retail real estate property owner, developer, and manager. It has interests in 306 properties across Canada that total seven million square feet. It has expertise in-house to develop new retail properties, which is more profitable than buying properties from third-party developers.

Plaza Retail has total assets worth \$1 billion, and it maintains a high occupancy rate of over 96%. Currently, it has 26 projects under development or redevelopment that will add 900,000 square feet to its portfolio.

### Business outperforms

Canadian REIT outperforms. In the past decade ending in 2014, Canadian REIT's funds from operations (FFO) per unit grew at a compounded annual growth rate (CAGR) of 5.9%.

In the same period, **Cominar Real Estate Investment Trust**, its peer with a similar-sized market cap, had its FFO per unit grow at a CAGR of 2.3%.

Plaza Retail REIT outperforms other retail REITs. In the past decade ending in 2014, Plaza Retail's FFO per unit grew at a CAGR of 5.8%.

In the same period, other leading retail REITs grew at a slower pace. **RioCan Real Estate Investment Trust's** FFO per unit grew at a CAGR of 1.9%, and **Smart REIT's** FFO per unit grew at a CAGR of 3.4%. They're not fair comparisons though because Plaza Retail is a much smaller REIT, and so it is easier to grow faster than bigger REITs.

**Slate Retail REIT** would be a fairer comparison since its market cap is around \$400 million just like Plaza Retail. However, the history of Slate is too short to make a meaningful comparison.

### Track record of distribution growth

Both Canadian REIT and Plaza Retail REIT have a proud track record of increasing distributions. They are the only Canadian publicly traded REITs that have increased distributions for at least 12 consecutive years. To me, this implies consistency and high quality.

Further, Plaza Retail REIT is set to increase distributions by 4% next month, resulting in an annual payout of 26 cents per unit.

### Tax on income

REITs pay out distributions that are unlike dividends. If you wish to avoid the tax-reporting hassle, buy REITs in a TFSA or an RRSP. Investors may be interested to know the return of capital portion of REIT distributions is tax deferred until unitholders sell or until the adjusted cost basis turns negative.

### In conclusion

Canadian REIT last increased its distribution in June by 2.9%. It yields a very safe distribution of 4.4% at under \$41 per unit because its FFO payout ratio is low at about 60%.

Based on the annual payout of 26 cents per unit, Plaza Retail's forward yield is almost 5.8%. This is an above-average yield, and with an adjusted FFO payout ratio of under 82%, the yield is safe.

Both Canadian REIT and Plaza REIT are high quality. Their yields should continue to grow every year. Further, their valuations aren't expensive at the current levels, but are in fair-value range.

### CATEGORY

1. Dividend Stocks
2. Investing

### TICKERS GLOBAL

1. TSX:PLZ.UN (Plaza Retail REIT)

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