



RioCan Real Estate Investment Trust Is a Well-Wrapped Gift for Investors

Description

I have a gift for you that I think you're going to want to open now. That gift is **RioCan Real Estate Investment Trust** ([TSX:REI.UN](https://www.riocanreit.com)). This might be one of the best stocks you could buy for a few reasons.

For those that don't know, RioCan is a REIT. REITs are companies whose primary asset is real estate. Further, REITs get special tax considerations in exchange for distributing 90% of its income to investors in the form of dividends. Unlike physical real estate, which can prove very illiquid during rough times, REITs give you all the pros of real estate, such as monthly income, without the negatives.

RioCan in particular is the preeminent retail REIT on the market. The company has 80 million square feet of leasable space across 340 different locations in Canada. Further, it has 48 locations across the United States totaling 13 million square feet. Since it has some of the best retail space, it also has some of the best tenants, such as **Canadian Tire**, **Wal-Mart**, and **Cineplex**. This explains why it has a 97% occupancy rate.

But unlike other established REITs, RioCan is making three specific moves that I believe will make this stock worth a lot more in the coming years.

The first is that it announced the sale of its U.S. portfolio. RioCan was one of the big buyers during the financial crisis. It spent \$1.2 billion on shopping centres across the U.S. Because of how strong the U.S. dollar has been in comparison to the Canadian dollar, and because these assets have appreciated, RioCan finally decided to sell them for US\$1.9 billion to Blackstone Real Estate Partners VIII. When the conversion is done, that turns into \$2.7 billion, which is significantly more than the \$1.2 billion it paid.

This money is allowing RioCan to make some smart moves. **Kimco Realty Corp.** has a stake in 22 of RioCan's Canadian properties. RioCan is buying those stakes back for \$238 million. RioCan is also going to pay down debt and look to further develop old properties or buy new ones.

Part of that redevelopment is in an initiative to build residential properties above its retail properties. Since the land is already owned and there are already buildings there, it only needs to add on top of existing buildings, which cuts a big chunk from the cost. With this additional profit, I expect to see

RioCan build more of these split-purpose units.

RioCan is also partnering with **Hudson's Bay Co.** to manage the company's real estate. In essence, HBC and RioCan are forming a new entity that will be a publicly traded REIT, where HBC puts its properties and RioCan puts some capital and its management experience. Both firms will hold a significant percentage of the assets.

Dividends

What makes REITs so great are the dividends. RioCan pays \$0.1175 per share per month, which comes out to a yield of 5.83%. However, I expect that we are going to see this dividend increase in 2016 due to the sale of its U.S. assets. If it pays down debt or buys new properties, its bottom line is going to improve. That will push its payout ratio under 90%, which means the company will have to increase the dividend to stay compliant.

All told, I believe investors should seriously consider buying shares of RioCan. It's a smart move, the dividend looks likely to increase, and the stock is primed to see improvements. That sounds like a present to me.

CATEGORY

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2. Investing

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

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