



Collect \$1,100 in Monthly Rent From RioCan Real Estate Investment Trust

Description

There's a reason why real estate has been a popular investment over the last 30 years. Values seem to keep ticking up. Steady population growth ensures there's always demand for housing. Yields have traditionally been pretty good. And there are plenty of other landlords out there; an investor with problems has resources they can use.

But in 2016 I'm not sure real estate is a very good investment. Values are sky high, especially in markets like Toronto and Vancouver. Yields in desirable markets are less than 5%, and that's before major expenses like interest on the mortgage. Without ample cash flow, buying residential real estate becomes a bet on higher prices. That's not a bet I'm willing to make.

In the world of professional real estate, it's a little different. The folks in charge know they have to make smart decisions or shareholders will revolt. These investors typically get cap rates between 6% and 8% for property, much better than the 3-5% demanded from residential landlords.

There are other advantages to buying REITs. You'll never get woken up at four in the morning with an emergency from a REIT. REITs offer instant diversification, usually consisting of properties covering much of Canada. And many offer yields you won't get buying physical property.

Perhaps Canada's finest REIT is **RioCan Real Estate Investment Trust** ([TSX:REI.UN](#)). Here's how you can turn it into a real passive-income machine.

Why RioCan?

RioCan is the largest owner of retail property in Canada; it owns approximately 65.6 million square feet of gross leasable area across 293 different properties. It also owns 47 American properties comprised of 13.3 million square feet of area, but that portfolio is slated to be sold to a division of **Blackstone**.

RioCan has incredibly diverse operations. It has property in every Canadian province with a focus on Ontario. It has made a specific effort to not focus on any one tenant, a move that worked out quite well when **Target** Canada abruptly closed its doors in 2015. Target was responsible for approximately 2% of RioCan's net income, so this was not a huge blow.

RioCan has never missed a dividend as a publicly traded company. These days RioCan shares yield 5.3%. There are more generous yields from other REITs, but there are a number of reasons why I think, overall, RioCan's dividend is one of the best in the business.

Firstly, the payout ratio is reasonable, coming in at approximately 85%. The payout ratio should come down slightly over the medium term too as the company reinvests the proceeds from its U.S. sale into further expansion and paying down debt.

Secondly, the company has such a long dividend track record, the last thing management wants is to cut the dividend. In fact, I'd say the company will hike the dividend in the next year or so.

And finally, management is working on a long pipeline of redevelopment projects that will add to the bottom line. The company owns dozens of sites outright with valuable land. Because the property was bought so long ago, the cost to redevelop it into something with retail on the bottom and condos on top is far less than comparable developments. These units can either be kept or sold.

Collect big money

The average rent for a two-bedroom apartment in Canada is approximately \$1,100 per month.

For investors to collect \$1,100 per month from RioCan, they would need to buy 9,361 RioCan shares at the current price of \$26.45 for a total investment of \$247,598, less any brokerage commissions.

Sure, that seems like a lot, but keep in mind that in many markets, getting \$1,100 per month from an apartment would mean an investment of more than \$300,000. And RioCan investors don't need to do anything but sit around and collect their dividends. It's true passive income.

Perhaps \$1,100 per month is out of reach for you. Don't worry. We'll show you how anyone can get started earning passive income from Canada's leading REITs.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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

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