



## Which Company Is Canada's Finest REIT?

### Description

REITs have quietly become one of Canada's most popular sectors.

Much of the popularity is from dividend investors looking for yield. REITs offer consistent earnings with a stated mandate to pay most of cash generated to investors, leaving only a minimum to maintain properties and buy new assets. This translates into dividend yields as high as 10%, although the 5-7% range is more common.

Still, in today's low interest rate world, that's very attractive.

The big question for many investors is, out of dozens of different REITs, which one should they own? Everyone wants to own the best REIT in Canada. Unfortunately, it's not quite that simple.

Some REITs offer great yields. Others offer lower dividends with far more secure payouts. Some offer more in capital appreciation potential than current dividends. And finally, a few offer a little of all of these features.

Let's take a closer look at REITs that tick off each of these different boxes.

### Great yield

It isn't enough to just find a REIT with a high dividend yield. We also have to make sure such a payout is sustainable.

Canada has at least 15 different REITs with yields of above 7.9% and a few exceeding 9%. **Artis Real Estate Investment Trust** ([TSX:AX.UN](#)) offers a terrific combination of current yield—it currently pays 7.96%—and some safety in the payout ratio.

The company, which owns more than 250 retail, office, and industrial properties across five Canadian provinces and three U.S. states, earned \$1.49 per unit in funds from operations in 2015, an increase of 4.9% from the year before. It paid out \$1.08 in dividends, giving it a payout ratio of 72.5%.

Even though Alberta, one of the trust's key markets, continues to look weak in 2016, analysts are projecting the payout ratio will actually go down in 2016, perhaps paving the way for a dividend increase.

Artis offers investors the best combination of yield today and a low payout ratio to ensure the payout will continue to come tomorrow.

### Great potential

Artis is also pretty undervalued, but it's not nearly as cheap as **Morguard Real Estate Inv.** ([TSX:MRT.UN](#)).

Morguard owns 50 properties spanning 8.8 million square feet of gross leasable area with a total value of \$2.9 billion. Approximately 54% of the portfolio consists of retail properties with the rest split between office and industrial space.

Morguard is suffering because of exposure to the weak Albertan market. Approximately 25% of assets are in the province, including exposure of more than 10% of net operating income to one tenant, **Penn West Petroleum**. Despite this, Morguard still boasts an occupancy ratio of above 97%.

Morguard is incredibly cheap on a couple of different metrics. Firstly, it trades at just 9.1 times projected funds from operations. It also trades at an eye-popping 43% under its book value of \$25.92 per share.

If Morguard returns to book value, investors are looking at a capital gain of more than 75% as well as getting paid a 6.5% dividend to wait.

### Quality

Some investors—like myself—like buying cheap assets, content in knowing a margin of safety exists. Other investors will argue that stocks like Morguard are cheap for a reason, and it's a better strategy to pay up for quality.

If quality is what you seek, a fine choice is **Smart REIT** ([TSX:SRU.UN](#)). Smart is **Wal-Mart** Canada's developer of choice with approximately 65% of its 150 different locations anchored by a Wal-Mart store; 27% of all rent comes from the giant from Arkansas.

This association is a powerful one. Not only is Wal-Mart one of Canada's best-performing retailers, but the foot traffic attracted by the behemoth is beneficial to other tenants. This auxiliary foot traffic is a big reason why Smart's occupancy is close to 99% compared to 90-95% for its peers.

The only real problem with Smart is its anemic yield. A payout of 4.3% isn't great for a sector where the average yield is much higher, but when compared to other fixed-income securities, it's not bad.

### CATEGORY

1. Dividend Stocks
2. Investing

## TICKERS GLOBAL

1. TSX:AX.UN (Artis Real Estate Investment Trust)
2. TSX:MRT.UN (Morguard Real Estate Investment Trust)
3. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)

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