Do You Need Income? Bank on This Retail REIT

Description

When it comes to earning a consistent monthly income, it doesn't come easier than investing in real estate investment trusts (REITs). They typically own a diversified portfolio of property assets from which they earn a rental income. In turn, they pass on most of that cash flow to unitholders.

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Is RioCan the retail REIT to consider?

The leading retail REIT is **RioCan Real Estate Investment Trust** (TSX:REI.UN). Within a short span of about seven months, RioCan's unit price has appreciated 27% from the December low. Now it trades at a historically high multiple of 17.1.

RioCan sold its U.S. portfolio of 49 properties. Although the REIT has paid $774 million to acquire Kimco's interests in 23 properties and has made efforts in other acquisitions, there's no argument that it'll take time to replace all the cash flows lost from its U.S.-portfolio sale.

Because it is trading at a relatively high multiple and has a reduction in its cash flows (temporarily), it's unlikely RioCan will hike its distribution anytime soon.

That said, RioCan has maintained or increased its distribution for the 24th consecutive year. As the largest retail REIT in Canada, RioCan probably doesn't want to break that streak. With the increased liquidity from its U.S.-portfolio sale, RioCan should be able to at least maintain its 4.8% yield.

Where else can you get income?

Do you need income and are looking for better value? Not to worry. There are better choices in the retail REIT world that you can consider.

You might not have heard of **Plaza Retail REIT** (TSX:PLZ.UN) because it's much smaller than RioCan. Comparatively, RioCan is 19 times bigger than Plaza Retail by market cap!

That said, Plaza Retail can boast about at least one track record that only one other Canadian publicly traded REIT can boast about. Plaza Retail has hiked its distribution for 13 consecutive years. This is how strong and stable Plaza Retail's cash flow is.

Plaza Retail holds interests in 299 properties across about 7.6 million square feet in Alberta, Manitoba, Ontario, Quebec, New Brunswick, Newfoundland, Nova Scotia, and Prince Edward Island.

In the first quarter Plaza Retail maintained a committed occupancy of 95.9%. Also, its funds from operations (FFO) payout ratio was 83.2%, which leaves some wiggle room in case something goes wrong. Moreover, the REIT had a safe interest coverage ratio of 2.07 times.

One key factor that sets Plaza Retail apart is that it has internalized management, which develops retail properties in house. So, the business is more profitable than relying on third-party developers.

The REIT doesn't look like it's slowing down. It currently has 24 projects under development or redevelopment, which will add about 1.5 million net square feet to its portfolio.

Additionally, management has a meaningful stake in the REIT, which aligns its interests with that of unitholders. As a relatively small REIT with entrepreneurial abilities, Plaza Retail can adapt to changing market environments.

Conclusion

Plaza Retail has consistently grown its business and cash flow over time. Since 2011 its FFO per unit has grown at an annual rate of 5.4%.

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Based on Plaza Retail's track record and the fact that it's working on 24 projects, it's likely that the REIT will continue to grow and also grow its distribution going forward.

What's more to like is that at about $5 per unit, Plaza Retail trades at a reasonable multiple of 15 and offers an above-average yield of 5.2%.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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

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