



The Better Retail REIT to Own for a 4% Yield

Description

In June U.S. REITs delivered one-month returns of 6.9%, higher than every other asset class available to American investors. Here in Canada, the **iShares S&P/TSX Capped REIT Index ETF**, which tracks the top 16 REITs in this country, gained 5.9% in June and is up 23.1% year-to-date through July 31.

Investors interested in generating income for their portfolios are obviously focused on REITs given their high yields. Two of the country's biggest retailers—**Canadian Tire Corporation Limited** ([TSX:CTC.A](#)) and **Loblaw Companies Limited** ([TSX:L](#))—have spun off their real estate assets in recent years to create value for their shareholders.

While both **CT Real Estate Investment Trust** ([TSX:CRT.UN](#)) and **Choice Properties Real Estate Investment Trust** ([TSX:CHP.UN](#)) currently offer investors yields above 4%, one of them is better to own than the other. Read on and I'll tell you which one.

Where they're similar

Both REITs play up the fact that they have a major tenant signed to long-term leases, which ensures the unitholders receive monthly distributions without fail (\$0.68 on an annualized basis for CT Real Estate and \$0.67 for Choice Properties), providing a level of risk appropriate for the +4% yield.

In addition to a majority of the properties owned by the REITs being a Canadian Tire- or Loblaw-branded store location, they're also controlled by their parent companies; Canadian Tire owns 84% of CT Real Estate and Loblaw owns 83% of Choice Properties, which means neither is truly independent.

Depending on how you view the world, that could be a blessing or a curse.

Other similarities between the two REITs include the following:

- Both have very high occupancy rates. At the end of 2015 CT Real Estate's occupancy was 99.9%, while Choice Properties's was an equally robust 98.6%.
- Each turns approximately 41% of their rental revenue into adjusted funds from operations (AFFO).
- Both have debt-to-total-asset ratios less than 50%.

- Each REIT distributes about 83% of its AFFO to unitholders.

Where they're different

Choice Properties is clearly the larger of the two with 41.6 million square feet in gross leasable area scattered across 519 properties at the end of 2015 compared to 21.5 million square feet in gross leasable area for CT Real Estate over 287 properties. It's for this reason that Choice Properties generated 2015 revenue of \$743.1 million—almost 100% greater than the \$378.2 million CT Real Estate brought in.

Choice Properties's third-party tenants (those not affiliated with Loblaw) represent 10.9% of the 41.6 million square feet of gross leasable area compared to just 2% for CT Real Estate's 21.5 million.

That might not seem like a lot when looking at the percentages, but on a square-footage basis, Choice Properties has 10 times the amount of third-party rental revenue than CT Real Estate does. A more diversified portfolio means Choice Properties is able to rely less on the success of its controlling former parent than CT Real Estate Trust.

Bottom line

Canadian Tire recently dismissed Michael Medline as CEO, replacing him with former boss Stephen Wetmore, who's served on the board since stepping down from the top job in 2014.

While Medline was instrumental in the company's successful foray into sporting goods through its 2011 acquisition of Forzani Group, whose brands include Sport Chek and Atmosphere, the board felt he didn't have a grasp of its digital business—the key to any retailer's success in today's retail environment.

While profits are good at Canadian Tire, change is never an easy thing, especially at the top. It's going to take a while for Wetmore's stamp to be put on its business.

In the meantime, Loblaw is generating same-store sales growth and higher profits. Business is solid and expanding. Add to this Choice Properties's more diversified real estate portfolio, not to mention its slightly higher yield—4.5-4.9%—and I think the choice is an obvious one.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:CHP.UN (Choice Properties Real Estate Investment Trust)
2. TSX:CTC.A (Canadian Tire Corporation, Limited)
3. TSX:L (Loblaw Companies Limited)

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