RioCan Real Estate Investment Trust: The 1st Piece to Your Empire

Description

Building a real estate empire is one of the most well-known ways to achieve tremendous economic growth and prosperity. You acquire properties, rent them out to people or businesses, and use the cash flow and property values to acquire more properties. While there are many of positives to building a real estate empire, there are also a lot of annoyances that make it not worth your time. Primarily, this has to do with finding tenants, managing the properties, and making sure that rents are collected on time.

Nevertheless, real estate is an amazing asset. And fortunately, there is another way to invest in real estate without all the burden. Real estate investment trusts (REITs) are a unique investment vehicle that derive the bulk of their revenue from real estate. In return for being classified this way, there are preferential tax treatments. In my opinion, **RioCan Real Estate Investment Trust** (TSX:REI.UN) is the best REIT to own in Canada today.

I believe this because it has some of the best retail properties on the market. Overall, it has approximately 300 malls in its portfolio and can name companies such as **Wal-Mart**, **Canadian Tire**, **Loblaw**, and **Cineplex** as tenants. As you can see, we're not talking about little shopping centres, but rather the gigantic ones that have dozens, if not hundreds, of tenants.

RioCan used to have exposure to the United States with 49 properties it'd bought during the Financial Crisis, but it sold them for net proceeds of $1.2 billion. It has been using the money to pay down its debt. In December 2015, RioCan's debt-to-total-assets ratio was 46.3%, which isn't awful, but it's certainly a bit high. Using some of the money from the sale, it was able to get its ratio down to 38% by June, which is a historic low.

Now, you might be thinking, "That's fine, but cash flow must have been hit pretty hard if it sold 49 properties." Its operating funds from operations dropped only $1 million year over year. I'll take that $1 million drop for $1.2 billion any day. The reason it was such a small drop is because its Canadian portfolio improved FFO by 8.1% to $118 million thanks to a 2% increase in occupancy rate. At 95.1%, that means it's collecting rent on the bulk of its square footage.

There are a couple of ways that RioCan intends to grow its portfolio. The first is through 15 development projects with a total of 5.9 million square feet of space. The other way is through a $250 million per year investment in what it calls “urban intensification projects.” It already owns the land that its malls are built on, so it’s going to build residential units right on top of the mall. Building up is cheaper than buying new land. Over the next decade, it wants to get approval to build 10,000 units.

All of this makes the 5.31% yield possible. It pays 11.75 cents per share in a monthly distribution. And thanks to its growing cash flow, the AFFO payout ratio was cut from 94.5% to 89.9%. That means that it’s paying out 89.9% of its cash flow in the form of dividend. As this number reduces thanks to growth, there is more room for the company to hike the dividend. While I don’t believe an increase is imminent, as these other projects have to come online, it’s certainly possible.

Ultimately, I believe that RioCan is one of the best assets you can own when building your real estate empire.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

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

Category

1. Dividend Stocks
2. Investing

Tags

1. Editor's Choice

Date
2025/08/18
Date Created
2016/10/20
Author
jaycodon