RioCan Real Estate Investment Trust: Buy for the Yield

Description

Real estate is one of the most efficient ways to build wealth. There is only so much available land in the world, and people need a place to live, work, and shop. By accumulating real estate, you acquire wealth and income generation.

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The problem is that owning real estate is annoying. There is managing the property, ensuring you have high-quality tenants, paying all the appropriate taxes, etc. And they're highly illiquid beyond the rents; if you need money now, it could take months to sell the property. That's why so many people have migrated their money to real estate investment trusts (REITs).

One REIT I've been excited about ever since I started writing for Fool is **RioCan Real Estate Investment Trust** (TSX:REI.UN). It is the preeminent REIT in Canada. It owns a network of approximately 300 top-quality shopping centres across the country. We're not talking small strip malls; rather, we're talking about the behemoths with anchor tenants like **Wal-Mart**, **Canadian Tire**, **Loblaw**, and **Cineplex.**

So, how is the business doing?

It's doing amazing. It announced its third-quarter earnings in the beginning of the month, and business is booming. Its operating income grew by 9.2% to $178 million year over year. And its operating funds from operations increased by 16.1% to $131 million on a continuing-operation basis. Its total network operating funds from operations actually dropped by 6.7%, but there's a good reason for that.

It sold its entire U.S. operations earlier in the year for approximately $1.2 billion. It had acquired them during the financial crisis and made a pretty penny. But with that money, it strengthened the balance sheet significantly.

In December 2015, its leverage ratio was 46.1%, which is a sign of the amount of debt it held. Fast forward to September 2016, and that ratio is down to 39.6%. REITs tend to carry debt because it's how they finance their acquisitions; getting the leverage so low is an amazing sign for RioCan.

Another good sign for the company is that it increased its committed occupancy from 93.2% to 95.3%.

And even in the second quarter, it was 95.1%, so it's experiencing quarter-over-quarter growth. The occupancy rate is one of the most important figures for a REIT. The closer to 100% this is, the more square footage that is being rented in its network. Any unrented square footage is a missed opportunity, but you've always got to expect some empty space.

What does the future hold for growth?

RioCan completed the acquisition of four properties that the Canada Pension Plan Investment Board had co-owned with it. It cost RioCan $352 million and was immediately accretive with the expectation that it will generate net operating income of $18 million per year.

RioCan has also partnered with **Boardwalk Real Estate Investment Trust** to develop a mixed-use retail and residential tower at RioCan's Brentwood Village Shopping Centre. This will include 10,000 square feet of real estate and an 11-storey residential tower with approximately 165 apartments. And then, of course, there is the plan to open 10,000 residential units over the coming years.

RioCan is in a good place from balance sheet, debt, and growth perspectives. And that makes it a great buy for those who are hungry for dividends.

The company pays a monthly distribution of 11.75 cents, which is approximately a 5.37% yield. Growth in the dividend is going to be slow as it expands its operations and continues making these new partnerships. However, the payout ratio has been slowly dropping from 91.6% last year to approximately 90% now. The lower this goes, the more room there is for growth.

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All in all, I'm seriously bullish on RioCan and believe investors should own it. The yield is generous, and the company is in a great position to continue growing. I say buy.

CATEGORY

1. Dividend Stocks
2. Investing

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

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