



## 3 Top REIT Picks For 2017

### Description

It has been an interesting year for Canada's REITs.

The early part of the year was marked by weakness in Alberta, especially the office market. Demand dried up as many oil companies either went bankrupt or downsized.

The rest of the year was dominated by interest rates. First rates crashed with negative rates in Japan and Switzerland making headlines. This sent the price of REITs higher. That was followed by a steady decline in REIT prices as investors speculated the U.S. Federal Reserve would finally hike interest rates.

Additionally, many investors think President-elect Donald Trump's policies will be inflationary, which will help rates go higher.

Here are three top REIT picks for 2017, focusing on income, value, and security.

### Income

REITs are tricky. We can't just blindly load up on the one with the highest dividend yield, since there could very well be issues with the payout.

**Northview Apartment REIT** (TSX:NVU.UN) is the perfect combination of a high payout with a sustainable yield. The owner of apartments across Canada—with a focus on higher-yielding northern Canada—is a true giant, owning more than 24,000 units across 60 markets.

Northview does have a focus on markets that are somewhat energy dependent, but that hasn't really impacted earnings that much. Yes, funds from operations decreased from \$1.84 per share in the first nine months of 2015 to \$1.66 per share thus far this year, but much of that decline was because of one-time items.

The company's payout ratio is fine. It paid \$1.22 per share in dividends over the first nine months, which translates to a 73.5% payout ratio. That is in line with many of its peers—companies that have

dividends much smaller than Northview's 8.4% yield.

## Value

Thanks to investors hating its Albertan exposure, investors have the chance to pick up **Dream Office Real Estate Investment Trst** ([TSX:D.UN](#)) at a steep discount to its assets.

At the end of its most recent quarter, Dream had a reported book value of \$23.77 per share. These days, shares trade hands at \$18.59. That's a discount of nearly 22%.

It gets better. Approximately a year ago, Dream had a book value approaching \$32 per share. Management decided to take a couple of huge write-downs on the company's Albertan assets, decreasing its total assets from \$6.7 billion on September 30, 2015, to \$5.6 billion a year later.

I believe management was a little aggressive, and the assets could be written back up in the next couple of years as Alberta recovers. My estimate of fair value today is closer to \$26 or \$27 per share.

Oh, and Dream pays a succulent 8.1% dividend to wait.

## Security

Many investors don't want the risk associated with high-yielding value REITs, preferring to own something a little more boring.

REITs don't get much more steady than **RioCan Real Estate Investment Trust** ([TSX:REI.UN](#)). Canada's largest REIT is the proud owner of more than 300 retail properties across Canada, covering 63 million square feet.

Management has done a nice job diversifying the company's tenant base. No one tenant consists of more than 5% of gross rent. In fact, the REIT's top 10 tenants only give it 32.8% of its revenue.

RioCan is in a year of transition. The company sold its U.S. assets and put the capital to work improving its balance sheet and making a few small bolt-on acquisitions. Now it will focus on its development portfolio, repurposing properties bought years ago into multi-use facilities with retail space on the bottom and apartments on top.

The company has identified dozens of such opportunities with a total of 7.2 million square feet of residential space in its long-term plans. It will end up with close to 10,000 apartment units, making it one of the largest residential landlords in the country.

RioCan pays a 5.3% dividend—a payout easily covered by earnings.

## The bottom line

There's no reason to believe Canada's REITs won't have another decent year in 2017. Alberta's economy should bounce back a little, and the rest of the country is doing fine. Buying any of these REITs today is likely to yield decent results.

## CATEGORY

1. Dividend Stocks
2. Investing

## **TICKERS GLOBAL**

1. TSX:D.UN (Dream Office Real Estate Investment Trust)
2. TSX:REI.UN (RioCan Real Estate Investment Trust)

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