Is RioCan Real Estate Investment Trust or Smart REIT a Better Income Investment?

Description

Both **RioCan Real Estate Investment Trust** (TSX:REI.UN) and **Smart REIT** (TSX:SRU.UN) have had a nice pullback recently. Since price and yield have an inverse relationship, lower prices have pushed the yields of these REITs higher.

So, now is a good time for income investors to review them and perhaps pick up some shares to increase their income, but which should you invest in?

RioCan REIT

In the last six months, **RioCan Real Estate Investment Trust** (TSX:REI.UN) units have declined nearly 7% and yields almost 5.4%.

RioCan is the largest retail REIT in Canada with an enterprise value of about $15 billion at the end of the third quarter. It has interests in 301 retail and mixed-use properties, including 15 which are under development.

RioCan earns nearly 66% of its revenue from Ontario, almost 15% from Alberta, and close to 9% each from Quebec and British Columbia, respectively.

The company's top 10 tenants include quality names such as **Loblaw**, **Canadian Tire**, **Wal-Mart**, and **Cineplex**. Together they generate 32.8% of its revenue and have a weighted remaining average lease term of eight years. No tenant contribute more than 5% of its revenue.

shopping mall
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In the first three quarters, RioCan's funds from operations (FFO) per unit increased by 1.6% compared to the same period last year.

With a sustainable FFO payout ratio of 84%, a diversified portfolio across about 8,000 tenants, and a committed occupancy north of 95%, RioCan should have no problem maintaining its 5.4% yield.

The takeaway

The 7% pullback brings RioCan, the largest Canadian retail REIT, to a fair valuation compared to its long-term multiple. The company maintains a strong balance sheet and a sustainable 5.4% yield.

Smart REIT

Previously known as Calloway REIT, **Smart REIT** (TSX:SRU.UN) has had an even more severe decline than RioCan. In the last six months, Smart REIT has pulled back more than 13%.

So, the REIT trades at a fair valuation compared to its historical normal multiple and yields almost 5.4% with a sustainable FFO payout ratio of 74%.

Smart REIT has more than 141 shopping centres and an office tower across Canada. It has 72% of its properties anchored by Wal-Mart.

The company's top 10 tenants include quality names such as Wal-Mart, Canadian Tire, Loblaw, and **Lowe's**. Together they generate 49.2% of its revenue. There's concentration risk in its the largest tenant, Wal-Mart, which contributes 26.6% of its revenue.

The company has maintained an occupancy north of 98% in the last year. Additionally, its portfolio has an average lease term to maturity of 6.5 years.

The takeaway

The 13% pullback brings Smart REIT to a fair valuation. The company maintains a decent balance sheet and a sustainable 5.4% yield. However, unitholders need to keep an eye on how Wal-Mart is doing.

Conclusion

Both RioCan and Smart REIT trade at a fair valuation and yield about 5.4%. If you can only invest in one, it'll be difficult to choose between the two quality names.

However, RioCan has a more diversified portfolio, more cash, and lower debt levels to invest for future growth. So, RioCan is a better choice for conservative investors.

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