Grow Your Empire With RioCan Real Estate Investment Trust

Description

There's a reason so many investors try to get into the real estate business. It's like building an empire; as you accumulate more real estate, you have more properties paying you monthly. But the problem with real estate is that it requires a significant upfront investment, not to mention having to manage all those properties. Another way to get paid like you own real estate is through real estate investment trusts (REITs).

One of the top REITs in Canada is **RioCan Real Estate Investment Trust** (TSX:REI.UN).

High-quality assets and tenants

RioCan invests in retail properties with some of the highest-quality tenants possible. All told, it has a stake in over 300 properties across the country with 45 million square feet; of that, nearly four million square feet is currently in development.

RioCan's top five tenants by percentage of annualized revenue are **Loblaw**, **Canadian Tire Corporation**, **Walmart**, **Cineplex**, and Winners. This network of high-quality tenants ensures that rents are paid on time, month after month.

And finally, RioCan's committed occupancy on December 31, 2016, was 95.6% — up from 94% a year earlier. This means that 4.4% of its total square footage remains unleased, so we want to see this move up.

Growth prospects

RioCan doesn't rest on its laurels. It continues to invest in growing its portfolio.

As I mentioned above, RioCan is working on nearly four million square feet of development, which will provide a nice boost to its cash flow once they go live. However, there are other moves the company is making that will help it in the long term.

The big one is its expansion into the residential market. While I normally don't like seeing a niche business move into another sector, this one makes sense. The company is building 10,000 residential units on top of the properties it already owns, which reduces the cost of these units and creates natural demand for the retail stores; this guarantees rents can be paid.

Strong balance sheet

Debt is one concern many investors have with REITs because when interest rates go up, the company suffers. RioCan doesn't have much to worry about, though, because it paid down $1.8 billion of its total debt in 2016 thanks to the sale of its U.S. operations. It now has a total-debt-to-total-assets ratio of 39.7% — down from 46.1% a year prior.

Further, operating income increased to $700 million from $664 million year over year. Further, its operating funds from operations (OFFO) increased by 11.9%, or $53 million, to $497 million from $444 million in 2015. In the fourth quarter alone, RioCan's OFFO increased by 17.8%, or $20 million, compared to the previous year.

Clearly, the business is in a strong position due to debt reduction as well as an improvement in its operating income and OFFO.

Dividend

RioCan pays an incredibly lucrative 5.26% yield, which is good for $0.1175 per month. While the company doesn't grow the dividend on a regular basis, I expect that to happen if OFFO can continue increasing.

RioCan is one of the best REITs in Canada. For those who want to expand their real estate empire and generate monthly dividends, RioCan is one of the best options on the market today.

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

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