



RioCan Real Estate Investment Trust: Is This a Safe Income Pick?

Description

RioCan Real Estate Investment Trust ([TSX:REI.UN](#)) is down 12% in the past nine months, and investors are wondering if the stock is a buy at the current level.

Let's take a look at the popular REIT to see if it deserves to be in your income portfolio.

Reasons for the pullback

REITs often come under pressure when the market believes interest rates are going to increase.

Why?

The sector tends to carry significant debt, so rising interest rates can increase borrowing costs and eat into revenues.

The U.S. Federal Reserve raised its target rate in December and again last month. The increases were expected, and it appears two more hikes might be on the way before the end of 2017.

RioCan knew this was coming and has done a good job of preparing for the moves. The company sold its U.S. assets last year and used a portion of the proceeds to reduce debt.

At the end of 2016, RioCan's debt-to-total assets ratio was down to 40% compared to 46% at the end of 2015.

A sharp spike in rates over a short period of time would likely put further pressure on the REITs. At the moment, it looks like the trend will be slow and steady, so RioCan should be able to manage the process.

Developments

RioCan has an interesting development portfolio.

The company owns interests in 15 retail projects that will produce 6.4 million square feet of new retail

space, of which 3.8 million is net to RioCan.

The company also has an ambitious plan to build up to 10,000 residential units at its top urban locations.

RioCan has identified about 50 properties located in six major markets that might be suitable for the project. As of the Q4 2016 earnings report, RioCan had received approval for 12 residential projects and anticipates an additional six by the end of the year.

Distribution

RioCan pays a monthly distribution of 11.75 cents per unit. The payout should be safe, and investors could see an increase once some of the development projects are completed and begin to generate revenue.

The current yield is about 5.3%.

Should you buy?

RioCan has picked up a bit of a tailwind in recent weeks as investors speculate the pullback might have been overdone.

I wouldn't expect big gains in the unit price, but investors looking for reliable, above-average yield might want to consider a small position today.

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