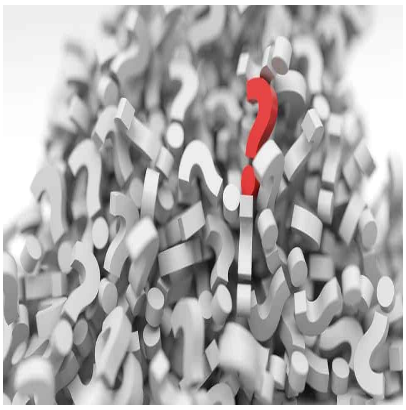

RioCan Real Estate Investment Trust vs. First Capital Realty Inc.: Which Is the Better Buy?

Description

Over the past 52 weeks, **RioCan Real Estate Investment Trust** (TSX:REI.UN) and **First Capital Realty Inc.** (TSX:FCR), both owners of retail real estate, generated total annual returns of 3.4% through April 10.

What are the odds of two companies, let alone two real estate businesses, having the same returns over a 52-week period? That's pretty slim, I would guess.

RioCan is a real estate investment trust (REIT). It pays a monthly distribution that works out to $1.41 annually and currently yields 5.4%; First Capital Realty is not a REIT and pays a quarterly dividend that works out to $0.86 annually and currently yields 4.2%.

Based on the two stocks' same 3.4% return, neither company has had a good year regarding capital appreciation.

Over the past decade, however, RioCan's annual return beat First Capital's in six out of the 10 years between 2007 and 2016. Interestingly, despite RioCan winning the battle, it lost the war; First Capital's 10-year annualized total return was 5.2% — 30 basis points better than RioCan.

Despite the slight 30-basis-point advantage for First Capital, it's fair to say that the two stocks have performed like carbon copies of each other over the past decade; picking one over the other based on past performance is a coin toss.

If you're looking at owning either stock, here's what you need to consider.

As I mentioned, RioCan is a REIT, and First Capital isn't.

The distributions paid out by RioCan get taxed differently than the dividends paid by First Capital. Most experts suggest you hold REITs within your RRSP, while holding First Capital in a taxable account could be advantageous because of the dividend tax credit. You'll want to speak to your accountant or financial advisor about this.

REITs got their start in Canada back in 1993 when plummeting prices caused real estate mutual funds to implode. After consultations with the Canada Revenue Agency, the Income Tax Act cleared the way for REITs — the first being RealFund, which was first converted into a closed-end trust and then listed on the TSX. Many others followed shortly after that, including RioCan.

REITs have become a big deal.

"Canadian investors have demonstrated with REITS, as they did with royalty trusts and income trusts, that they have a virtually insatiable demand for yield," Patricia Koval wrote about REITs in a 2013 report. "For as long as interest rates remain at near historically low levels, we expect that initial public offerings of new REITs will continue."

Well, more than three years has passed since the 20th anniversary of REITs in Canada, and they're still going strong.

Fool.ca contributor Nelson Smith recently dubbed Canada's second-largest REIT, **H&R Real Estate Investment Trust** (TSX:HR.UN), which yields 5.9%, the only REIT you need in your portfolio. While it hasn't done as well as either RioCan or First Capital over the past decade, it's a pretty good alternative.

Bottom line: RioCan vs. First Capital

At the end of the day, I like First Capital far more than RioCan not only because its dividend payout is a lot simpler from a tax perspective, but also because of the type of real estate projects it's doing: grocery stores anchor new developments in urban centres across Canada.

It's something that's worked well for U.S. real estate owners; First Capital's results suggest it's working here, too.

RioCan is good, but First Capital is better.

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