Are Retail REITs Like RioCan Real Estate Investment Trust Safe?

Description

It's amazing to think that Amazon is only 22 years old. In my lifetime, there was no e-commerce and people had to go to stores and the mall to procure their goods. Now it's not an uncommon prediction that I might not step into a mall more than once in a year.

The ease in which someone can purchase goods online has made some investors concerned about retail REITs like **RioCan Real Estate Investment Trust** (TSX:REI.UN). While it is true that some REITs might suffer, I don't believe RioCan is in any harm.

The reason is simple: its portfolio is high quality. I do expect many average strip malls to suffer and potentially close down. There was the rapid growth of the strip mall that I don't believe can be supported in an Amazon world. However, major malls like the ones RioCan owns are still very much a good business to be in. All told, RioCan has exposure to 300 properties across Canada, owning 47 million square feet.

This is because of the anchor tenants. If we look at the company's annual report, we can see that Loblaws, Canadian Tire, Wal-Mart, Cineplex, and Winners/Homesense make up the top five in revenue. These are large companies that people want to shop at, so once they are in the mall, they're likely to visit other stores as well.

So how is the business doing?

Quite well actually. Committed occupancy continues to improve, which is a sign that retailers are continuing to expand their operations in different properties. At the end of 2016, that had grown to 95.6% from 94% a year earlier. While I'd love this to be 100%, no large network can achieve perfect leasing, so the closer to 100%, the better.

Funds from operations are also on the rise, though you might not realize that if you looked at charts. In 2014, it brought in $507 million in FFO and that jumped to $622 million in 2015 before dropping to $548 million in 2016. But a few things happened in 2015 and 2016 to skew the numbers. First, Target Canada went bankrupt and paid a net settlement of $88 million to RioCan. And second, RioCan sold its U.S. portfolio in 2016, which it had started buying soon after the financial crisis.

That sale actually makes RioCan stronger because it was able to use much of the money to pay down $1.8 billion of its total debt. That pushed its total-debt-to-total-assets ratio down to 39.7% from 46.1% a year prior. This is significant because interest rates are starting to increase, so the bigger the debt reduction, the less the company will ultimately pay in interest. Interest rates increasing is one of the prime reasons investors are afraid of REITs, so if RioCan can continue paying this down, investors should feel more bullish on the company.

Ultimately, I believe RioCan is in a great place. Its business is strong, it has plenty of really strong tenants, and its funds from operations are increasing while its debt has been reduced. While I don't expect this stock to appreciate in value considerably, the 5.35% yield paid out monthly is a great way to start building a reliable income portfolio. I believe owning RioCan is a great opportunity.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Msn
2. Newscred
3. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date
2025/08/18
Date Created
2017/04/26
Author
jaycodon