Income Investors: Is H&R Real Estate Investment Trust and its 6% Yield a Buy?

Description

H&R Real Estate Investment Trust (TSX:HR.UN) is a diversified REIT that's focused on long-term distribution growth. The stock has gone virtually nowhere over the last six years, but investors focused solely on income probably aren't complaining, as they've collected a solid distribution that has grown a considerable amount during this time.

There are many flavours of REITs out there. REITs can have a focus on office properties, retail properties, industrial properties, residential properties or a mix of all types of properties.

For investors who aren't quite sure which REIT to invest in, H&R REIT can be your one-stop shop; it provides investors with a combination of office, retail, industrial, and residential properties.

The company's properties and projects have a fair value of about $13 billion. H&R REIT owns approximately 42 million square feet worth of properties with a 33.6% invested interest in ECHO Realty LP, which owns 9.1 million square feet worth of properties.

H&R REIT has a juicy 6.02% distribution which income investors can rely on. The company has a 95.5% overall occupancy rate in Q1 2017, which is quite high considering the REIT owns interests in retail and office properties, both of which are set to experience headwinds over the next few years.

Office properties are probably going to experience lower occupancy rates in the years ahead thanks to the rise of the remote worker. Technology exists today that allows employees to do their jobs from home. Office space is expensive and, for many employers, the work from home model is a practical model which allows employees and employers to benefit.

H&R REIT has an incredibly high 97% occupancy rate in its office portfolio, but I wouldn't be surprised if this number steadily dropped in the years ahead.

Similarly, retail properties could be experiencing a major headwind with the death of the shopping mall. Many pundits believe that traditional brick and mortar retailers are out and e-commerce retailers are in.

Personally, I think the death of the shopping mall fears are overblown, but the rising threat of e-commerce will most likely have some impact on REITs with considerable exposure to retail over the next few years.

Although H&R REIT's retail portfolio is at a lower 92.4%, it has solid retail tenants, so you don't have to worry about retail occupancy plummeting any time soon. But it's something to think about for investors who are bearish on traditional retailers.

H&R REIT also has about 25% of its operating income coming from Alberta, which I believe will be a drag for years to come.

Conclusion

I'm not a huge fan of H&R REIT's geographic exposure to Alberta or its large retail and office assets, which could experience headwinds going forward.

The 6% distribution is stable, but don't expect a generous distribution raise anytime soon.

For prudent investors, there are definitely better income plays out there that could offer capital appreciation or distribution growth in addition to stability.

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