These REITs Have 5-6% Dividend Yields: Are They Bargains?

Description

The spillover from the woes of **Home Capital Group Inc.** has caused experts and analysts to take a second look at REITs in a choppy market. A slump in oil prices has brought down demand for development in western Canada. The Ontario government has floated the possibility of further rent controls in response to an affordability crisis.

There is also concern that rising rates will threaten the acquisition growth strategy undertaken by REITs. Let's take a look at two REITs with multi-billion dollar market caps to see where the companies may be headed for the remainder of 2017.

RioCan Real Estate Investment Trust

RioCan Real Estate Investment Trust (TSX:REI.UN) stock has seen a 10% decline in 2017. The trust owns and operates Canada's portfolio of shopping centres with ownership interests in approximately 300 retail and mixed-use properties. It has been a little over a year since the share price peaked in July 2016 at $29.49. As of July 28, the stock is valued at $23.99. The company has announced a dividend of $0.12 per share at a yield of 5.9%.

RioCan released its first-quarter results on May 12. Operating income grew to $179 million from $170 million — an increase of 5.3% from Q1 2016. Revenue was up 2.1% to $290 million compared to $284 million the same period in the previous year. The company is set to release its second-quarter earnings on August 3, 2017.

H&R Real Estate Investment Trust

The share price of **H&R Real Estate Investment Trust** (TSX:HR.UN) has experienced a drop of 5% in 2017. It has fallen 8% since May 1. H&R is Canada's largest diversified REIT with total assets of approximately $14 billion.

On May 15, H&R announced its first-quarter results. Between January 1, 2016, and March 31, 2017, H&R sold investment properties for proceeds of $1.03 billion and acquired $380.6 million in new properties and developments. Its debt-to-total-assets ratio was 43.5% compared to 46.4% in the same period in 2016. The stock boasts a dividend of $0.12 per share at a yield of 6.5%.

Should you buy the dip?

In light of declines experienced in 2017, both of these stocks are hovering around 52-week lows. RioCan has a great deal of exposure to the retail industry with its portfolio of shopping malls and similar properties. The rise of online shopping and the drawdown in traffic within malls may give investors pause.

H&R has improved its balance sheet and aggressively paid down debt year over year by selling a multitude of investment properties. This company is slightly more diversified with 38 office properties, 101 industrial properties, 16 residential and development properties — in addition to the 153 retail properties the company owns.

Investors seeking income can justify adding both of these companies to their portfolio for an impressive dividend yield. Even in light of a recent hike, rates remain at historic lows, which should be a friendly environment for REITs.

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