RioCan Real Estate Investment Trust Is Down 11% YTD: Time to Buy?

Description

It has been a rough year for investors of **RioCan Real Estate Investment Trust** (TSX:REI.UN) if they've been looking for capital appreciation. However, if you have been taking in the monthly dividends and reinvesting them in more shares, you're in a solid place.

But why is the company down so much?

There is a common belief that **Amazon.com, Inc.** is going to destroy traditional retail. Go see what happened to U.S. grocery stores when Amazon announced the acquisition of Whole Foods. Investors freaked out and sent some of those companies down by over 10% in a matter of days.

RioCan is one of Canada's top REITs, focusing its energy on large, high-quality malls around the country. Examples of its tenants include **Canadian Tire**, **Cineplex**, **Wal-Mart**, **Loblaw**, and **Dollarama** . These are the types of companies with the resources to fight back against Amazon.

The reality is, RioCan is executing flawlessly on its strategy.

In its Q2 2017 earnings release, RioCan reported a 10.1% increase in funds from operations compared to Q2 2016. A 10.1% increase alone is incredible, but RioCan sold its U.S. operations in 2016 for an immense profit. If we take that sale out of the equation, funds from operations increased by 25.5% year over year.

RioCan's committed occupancy rate increased to 96.7% in the second quarter compared to 95.1% in the previous year. Its retention rate also improved to 93.9% compared to 91.6% last year. Said another way, its tenants are coming back and re-signing. Finally, its renewal rent increased by 4.7% compared to 3.3% in the same period last year.

In total, more retailers are coming to RioCan to lease space for their stores. And the current tenants are coming back and are willing to pay nearly 5% more in rent than they had in their previous lease.

So much for retail being dead.

The company has been able to reduce its debt thanks to the funds it received for selling all its U.S. properties. Its debt ratio is now 41.5%, which is just about the lowest ratio the company has ever had.

I expect debt to increase over the coming years thanks to its strategic approach to growth. Rather than adding more retail properties, RioCan is expanding on top of its current ones by building condos. All told, RioCan will open 10,000 condos in many of its urban centre retail locations over the next decade.

This is actually an offensive and defensive play for the company. On the offensive front, it adds a new revenue source for the company. On the defensive front, this adds tens of thousands of customers to its retail tenants, ensuring they can generate money, so they're able to afford their rents. And, if its tenants are seeing increased foot traffic, RioCan can continue boosting rents.

Ultimately, there is a fear in the market that retail is dead. However, this couldn't be further from the truth. If other investors want to worry, that's fine. If you start buying now, you'll be generating a nearly 6% yield with a monthly distribution of $0.115. Reinvest those funds, so when the market becomes rational again, the return will be even greater.

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