RioCan Real Estate Investment Trust: Best-in-Breed for Retail REITs

Description

RioCan Real Estate Investment Trust (TSX:REI.UN) is up over 5% since the beginning of September. Some investors might be asking why a retail REIT is on the rise when certain e-commerce platforms are coming to eat retail's lunch, but I believe those fears are overstated and, frankly, I don't see brick-and-mortar retail going away. But you do need to be smarter with the retail stocks you own, which is why you want to own RioCan.

Unlike your traditional strip mall, which might have a dozen tenants, RioCan only invests in top-quality shopping centres, some of which might have hundreds of individual tenants. And with anchor tenants like **Canadian Tire**, **Cineplex**, **Wal-Mart**, **Loblaw**, and **Dollarama**, I don't see as much risk.

Rather than waiting to see what happens, though, RioCan is taking the initiative and doubling down on what the company believes is its core portfolio of assets.

In the beginning of the month, RioCan announced that it would be selling 100 properties, after deciding to move away from smaller Canadian cities; instead, it's focusing its resources on Toronto, Ottawa, Vancouver, Calgary, Edmonton, and Montreal. RioCan expects to generate $1.5 billion in net proceeds from the sale.

Edward Sonshine, CEO of RioCan, explained why the company was taking this approach. "They [the properties] account for a third of our properties, but they account for much less than 20% of the value of our portfolio." He went on to explain that "we are going to be very Toronto-Ontario-centric when we are done with this. We will be over 50% in what I will call the Greater Toronto Area."

This isn't the first time RioCan has sold properties when it was in a position of power versus one of weakness. In 2015, it announced the sale of its 49 U.S. properties to **The Blackstone Group L.P.** for US$1.9 billion. RioCan started buying the U.S. properties in November 2009 when the recession sent retail property values into the gutter. According to RioCan, these properties increased in value by US$677 million by the time they were sold.

I believe we will see a similar outcome play out with RioCan. The company paid off a considerable amount of its debt and funded acquisitions in Canada.

What is RioCan going to do with the $1.5 billion? Management has two plans.

The first is to use half of the proceeds to buy back shares from investors, which is smart. This will ensure that the net asset value per share stays high.

The second is to invest those funds into its core Toronto portfolio. For example, it is working on a seven-and-a-half acre residential, shopping, and office complex in downtown Toronto. All told, RioCan plans to open 10,000 condos on top of many of its urban centre retail locations over the next decade.

This is the primary reason I remain unconcerned about RioCan and believe the company is the best of its breed. By focusing on Toronto, which continues to grow, it should be able to continue increasing rents for its tenants. And adding residential on top of its shopping ensures these retail tenants have customers.

I believe investors should own RioCan. The fear of brick-and-mortar retail dying is overstated. Current share prices ensure investors can earn a 5.66% yield, which is good for $0.12 per month. It's a smart play.

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Date
2025/08/16
Date Created
2017/10/18
Author
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