Don’t Miss Out on This 5.5%-Yielding REIT That Pays Monthly

Description

If you had started buying shares of **RioCan Real Estate Investment Trust** (TSX:REI.UN) when it bottomed out in September after losing 11% year to date, you’d be up over 8% today. And if you had bought a few weeks later when I next wrote about RioCan, you’d be up another nearly 3.5%.

But the other thing you would have gained, had you been buying or holding shares in either of these periods, was a $0.12 dividend. And every month going forward, you’ll receive that dividend, because unlike many other dividend investments that pay quarterly, RioCan distributes on a monthly basis. I’m a big fan of monthly payments, because they allow you to redeploy your money faster than waiting each quarter — this allows even better compounding.

What has likely surprised some investors is that RioCan is up considering it is the owner and operator of many of the largest malls throughout Canada. The message we often hear from financial pundits is that e-commerce has won the war. And yet RioCan consistently demonstrates that this is simply not the case.

In the beginning of November, RioCan announced its third-quarter results, and they were, as expected, quite strong. Revenue increased to $287 million in Q3 from $282 million in the same period last year. And IFRS operating increased by 4.1% to $186 million from $178 million a year prior.

Why are the numbers up? There are a few reasons. First, same-property net operating income increased by 2.4%, which means that RioCan is generating more income from the same portfolio it had a year ago. Second, its committed occupancy improved by 150 basis points to 96.8% from 95.3%. In-place occupancy is only lagging behind by 80 basis points, so RioCan is in a really great position.

Nevertheless, RioCan isn’t operating blindly and recognizes that only the best retail locations will survive. Fortunately, it has a strategy in place to ensure that the properties it owns are the ones that will win.

In October, RioCan announced that it would be selling 100 of its properties for over $2 billion with the expected net proceeds of approximately $1.5 billion. The argument is simple: it currently generates 75% of its annualized rental revenue from the six major Canadian markets. When it sells these properties in secondary markets, it'll generate over 90%.

We're talking about markets like Toronto, which continues to see great growth. With population density, RioCan can ensure that its tenants are seeing increased foot traffic, which ensures that they can not only pay rent, but they can pay higher rents if they renew their leases. The goal is to generate over 50% from the Greater Toronto Area alone, so this move is very important.

RioCan intends to take the net proceeds from the sale and repurchase shares of the company. Although RioCan will be leaner, it'll be a much more efficient business generating greater per-unit revenue than it does currently — and that's saying something, considering RioCan is so incredibly efficient.

The financial pundits are right when they say traditional retail is suffering. But that doesn't mean the crème de la crème can't survive. And RioCan, compared to all other retail operations, is definitely at the top.

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Date
2025/09/29
Date Created
2017/11/20
Author
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