Buying Opportunity: This REIT Is Changing its Focus

Description

Real Estate Investment Trusts, or REITS, are a unique type of investment that enables investors to get as close to becoming landlords as possible without taking out a mortgage or chasing down a tenant to pay the rent.

The benefits of investing in REITs are many; the distribution provided from an investment, which, in many cases, is like a monthly cheque from a tenant, is great, as is the diversification aspect that comes from the REIT owning hundreds of units scattered across a wide geographic area that minimizes risk.

RioCan Real Estate Investment Trust (TSX:REI.UN) is frequently noted as one of several great investment options, and while RioCan's place on that list hasn't changed, the landscape for Canada's former #1 REIT has changed.

RioCan is no longer the largest REIT in Canada, and that's okay

One thing often mentioned with respect to RioCan is that the company was the largest REIT in the country, with a portfolio of mostly retail shopping centres. While this factor alone does not make or break the company as a great investment, the reason for that recent change in ranking is both brilliant and shocking.

Despite their failure to admit it, commercial and retail REITS have kept a watchful eye on the constantly advancing e-commerce threat. Several legacy retailers, most recently Sears Canada, have shuttered operations because they were ultimately too slow to act on the changing face of retail.

As more consumers shop online, store traffic at physical brick-and-mortar locations decreases, which results in fewer sales. It's a natural extension of the always-connected, always-online world we live in.

For the retail-heavy RioCan, this is an opportunity to expand into a new segment — residential properties.

RioCan has sold 19 different assets over the past several months as part of a larger plan to offload $2 billion of assets. In total, RioCan is targeting approximately 100 of its 289 properties for sale. The proceeds from those sales will be allocated to building 10,000 residential units across the major metro areas of the country in what the company has called "RioCan Living."

Many of the existing shopping malls owned by RioCan are being redeveloped into mixed commercial and residential use properties. A smaller retail footprint on the ground floors of medium- and high-rise buildings could be augmented with residential units on higher floors to create a viable, if not lucrative investment opportunity that caters to both.

RioCan already has a handful of buildings under construction in Calgary, Ottawa, and Toronto, with plans to have at least three more before the end of the year.

Is RioCan a good investment?

While RioCan engaging in a furious sell-off of assets may trigger warning signs to investors, the company's new strategy of mixed commercial and residential use properties has massive appeal.

The targeted properties are existing shopping centres that still have commercial traffic, and the new residential units are planned to include a variety of tech-specific amenities, including storage spaces, cold-storage for grocery deliveries, tech rooms for working remotely, as well as more traditional amenities, such as party rooms and workout areas.

If that isn't convincing enough, investors should take note that RioCan also offers a monthly distribution that pays an attractive 6.09% yield, which makes this REIT an attractive offering for both growth-minded and income-seeking investors.

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