Do You Want to Increase Your Income?

Description

Real estate investments are best for monthly income. By investing in real estate investment trusts (REITs), you'll essentially be a passive landlord. You can pretty much sit back and watch those monthly distributions get added to your account, from which you can withdraw and do as you see fit with the money.

That's right. You won't have to chase down tenants who are late in paying their rent, nor do you have to worry about bad tenants who will vandalize your properties, because REITs are managed and operated by professional teams.

REIT investors just need to keep two things in mind: choose REITs that have good management and that are priced at a bargain.

Right now, retail REITs are generally the most discounted in the REIT sector.

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RioCan Real Estate Investment Trust (TSX:REI.UN) is the elephant in the room. It is the largest retail REIT as well as the largest REIT in Canada. It has ~290 properties across ~45 million square feet of leasable retail property in the country.

Currently, it generates ~41% of its revenue from the Greater Toronto Area and ~76% from major markets. Over the next two to three years, after selling secondary-market properties, it aims to increase the revenue contributions to +50% and +90%, respectively.

RioCan has a good management team with cross-functional expertise. Furthermore, it understands that its monthly distribution is important to shareholders. RioCan has at least maintained its distribution since 2001, which means its distribution was intact even in the last two recessions.

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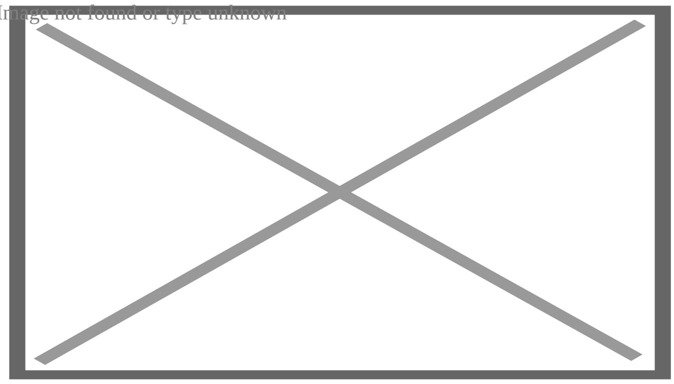

Despite a negative sentiment in the retail REIT space, RioCan's funds from operations per share (FFOPS) are holding steady, while its share price has declined +13% from its 2016 high.

As a result, at ~$23.30 per share, RioCan offers a rich yield of nearly 6.2%. Its 2017 payout ratio was below 79%, which was at the low end of its historical range. If the stock trades at its normal multiple again, it'll have ~9% upside from current levels.

As a smaller player, **Plaza Retail REIT** (TSX:PLZ.UN) has been hit harder than RioCan and, in my opinion, wrongly so. The stock is down +17% from its 2017 high, while the company's FFOPS is estimated to grow in line with inflation.

In fact, Plaza has increased its distribution per share every year since 2003. At ~$4.24 per share, Plaza offers a rich yield of ~6.6%. Its 2017 payout ratio was ~77%, which was at the low end of its historical range. If the stock trades at its normal multiple again, it'll have ~27% upside from current levels.

Investor takeaway

In the worst-case scenario, buyers of RioCan or Plaza will get +6% yields. Plaza is the more discounted stock; it offers a bigger yield and more upside potential. Either stock can be added as a small part of a diversified portfolio to increase income. However, don't add both, as their share prices will likely move in lockstep because they are in the same space.

CATEGORY

1. Dividend Stocks
2. Investing

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TICKERS GLOBAL

1. TSX:PLZ.UN (Plaza Retail REIT)
2. TSX:REI.UN (RioCan Real Estate Investment Trust)

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