Monthly Income Investors: A Top REIT Now Yields 6%

Description

Retirees and other Canadian income investors are searching for reliable distributions to add to their portfolios.

Let's take a look at **RioCan Real Estate Investment Trust** (TSX:REI.UN) to see why it might be an attractive pick today.

Potentially oversold

RioCan has come under pressure in the past year amid ongoing reports of failing department stores and the threat of higher interest rates. These are certainly issues for investors to watch, but the pullback in the price of the trust units from $26 a year ago to $23.50 might be overdone.

Why?

The company has a diverse tenant base with no single company representing more than 5% of the total revenue. In addition, RioCan continues to see strong demand for its properties, finishing the quarter with committed occupancy at 96.6%.

Each time a major name exits the market, RioCan is able to fill the space. For example, the company found new renters to fill the gap left by Target Canada and already has new new tenants lined up to replace 130% of the revenue lost by the closure of Sears Canada.

The company is in the middle of a strategy shift that will see RioCan sell properties in secondary markets and focus investment on six major cities. In the Q1 earnings release, RioCan indicated it had deals in place for $800 million in properties. The goal is to monetize about $2 billion in assets.

Development

On the growth side, RioCan is moving ahead with its residential mixed-use projects. The company could build up to 10,000 units at its core urban locations over the course of the next decade.

Another area to watch is the emergence of the legal cannabis market. For example, Ontario plans to open 150 cannabis stores by 2020, and a good number of those will find their way into RioCan properties.

Distributions

Investors received a nice bit of news when RioCan raised its distribution last fall. It was the first increase in some time, and indicates that management must be optimistic about the outlook for cash flow, despite the headwinds coming from rising interest rates.

With large mixed-use properties scheduled for completion in late 2018 and early 2019, investors could see another increase in the payout, which currently provides a yield of 6.1%.

Should you buy?

The planned assets sales are going well and RioCan's remaining properties are in high demand. Given the strong development portfolio, it might be worthwhile for income investors to start a small position while RioCan remains out of favour.

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