Retirees: Should You Buy RioCan Real Estate Investment Trust for the 6% Yield?

Description

Canadian pensioners are searching for reliable Canadian income stocks and REITs to add to their TFSA portfolios.

Let's take a look **RioCan Real Estate Investment Trust** (TSX:REI.UN) to see if it deserves to be on your buy list today.

Operations

RioCan owns shopping centres across Canada. This might not sound like an appealing investment, given all the news about big-name department stores closing and the continued growth of online shopping, but the REIT is undergoing an important strategy shift and is actually doing quite well.

It's true that some of RioCan's customers are facing challenging times, but the company has a diverse tenant base and demand remains strong for RioCan's properties. According to the Q1 2018 report, no single tenant is responsible for more than 5% of rental revenue, and the top 10 customers only account for 31%.

The Sears Canada closures sent a shock wave through the sector, but RioCan has already found new tenants to fill 85% of the space and replace 133% of the lost revenue. Committed occupancy for the company's properties remains high at 96.6%.

RioCan is monetizing assets in secondary markets, with total sale proceeds targeted at $2 billion. As of the Q1 report, RioCan already had deals or conditional agreements for $800 million in property sales. The company will use the net proceeds to reduce debt, buy back trust units, and fund development programs.

Growth

RioCan has a number of growth initiatives on the go, including a multi-year plan to build up to 10,000 residential units at is top urban locations.

The first wave of properties is scheduled for completion in late 2018 and 2019.

Risks

Rising interest rates make fixed-income options more attractive and can trigger a shift of funds away from go-to income picks, such as RioCan. In addition, higher rates can increase debt costs, reducing cash flow available for distributions.

Investors should keep these items in mind when evaluating RioCan, but the drop in the unit price from $29 two years ago to the current level of $23.60 might be overdone.

Distributions

RioCan raised the payout last fall and more gains could be on the way as the mixed-used developments are completed. The company’s 12-month payout ratio came in at 78% for Q1 2018, compared to 83.9% last year, so things are moving in the right direction.

Should you buy?

RioCan’s current distribution should be safe, and the strategy shift to focus on six core markets with mixed-use properties appears to be working out. At the current unit price, income investors can pick up a solid 6% yield with decent upside potential.

If you are looking for a well-managed REIT for your income portfolio, RioCan deserves to be on your radar today.

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