This REIT Is Pre-Empting a Lucrative Change in the Market: Buy Now

Description

Real Estate Investment Trusts remain some of the hottest opportunities on the market today, with some REITs offering investors lucrative distributions that in some cases are approaching double-digit returns.

One REIT that I've grown fond of over the past little while is **RioCan Real Estate Investment Trust** (TSX:REI.UN) which, if you haven't already considered as an investment, should be close to the top of your list.

The unmatched opportunity that RioCan offers

RioCan is one of the largest REITS in the country, having ceded its supremacy earlier this year. The company has nearly 290 properties that are primarily retail shopping malls, and RioCan's tenants are largely composed of some of the largest names in the retail sector.

Having large names as tenants serves several important functions. First, it provides a level stability to RioCan's operation, which in turn is part of the reason that the company maintains an enviable occupancy rate in excess of 96%. Having well-established tenants onsite also provides a beacon for potential traffic to the mall.

What really makes RioCan a great investment?

While RioCan's shopping mall empire may seem like a compelling investment right now, changing consumer shopping tastes are beginning to erode that traditional model. More people are avoiding malls, opting to use their mobile devices to search for and purchase the products they need from online merchants and thereby reducing the need to visit a shopping mall.

RioCan is countering this threat in two ways.

First, the company is jettisoning itself from the smaller markets around the country, opting to focus on the larger metro areas where both the population and rent rates are higher.

Second, RioCan is repurposing some commercial properties into mixed-used properties. In many cases, this involves building a tower of units atop several floors of retail. The retail shops can cater directly to the residents of the tower.

This is a lucrative model that has already proven successful in some markets, and RioCan is targeting 5% of operating income to be derived from these new hybrid units within the next five years, which the company has dubbed RioCan Living.

Looking longer-term, RioCan sees that figure rising to 10% of operating income within a decade, for which the company has already planned 10,000 units.

Looking beyond RioCan's mixed-use plan, the company provides a solid case for income-seeking investors thanks to its monthly distribution that pays out an impressive 5.84% yield.

Aren't there concerns with investing in RioCan and REITs in general?

It's no secret that the low interest-rate environment we've seen over the past decade has created the perfect opportunity for REITs like RioCan to thrive. REITs can take on significant debt as they acquire or build out properties, and the ability to pay that debt back comes under pressure as rates begin to increase.

This is yet another reason why the RioCan Living initiative by the company is so brilliant. Occupancy rates in the major metro areas of the country are at their highest levels, and the white-hot real estate market has resulted in home prices shooting into the stratosphere, setting up what could be a generation of renters for which home ownership is simply too unaffordable.

Interest rate hikes still have a ways to go before they will have a significant impact on RioCan's dividend. Until such time, RioCan remains an excellent investment option for those investors looking for both income and long-term growth.

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