Should You Get Income From REITs or GICs?

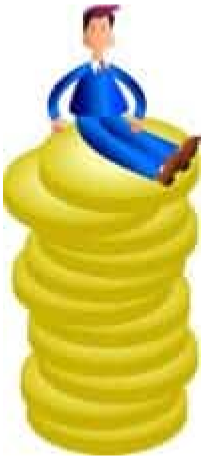
Description

Real estate investment trusts (REITs) own and manage a portfolio of real estate properties from which they tend to generate stable cash flows.

Being in the right asset classes helps — namely, REITs that own largely residential or industrial properties have generally done great in the recent past. As well, certain REITs, with quality office properties in key markets, have also been fine investments.

However, many residential, industrial, and office REITs are looking pretty fully valued. High valuations are usually followed by high share prices, which indicate lower yields.

If you want income from discounted REITs, you might consider retail REITs whose stocks have generally been depressed in the last two years. So, they're going to offer more income than the residential, industrial, or office REITs that have run up.



RioCan Real Estate Investment Trust (TSX:REI.UN) is the leading retail REIT and the largest REIT in Canada. Its latest focus has been on developing mixed-use properties in highly populated locations. It has about 284 properties, including 17 development properties, with an aggregate net leasable area of roughly 43 million square feet.

There's an oversupply of retail space in the U.S, while the situation is less dire in Canada. So, it was probably the right thing to do for RioCan to exit the United States, after which it used a large portion of the proceeds to reduce debt and strengthen its balance sheet. This was a good move, because higher interest rates will increase the cost of borrowing.

Other evidence that RioCan is well managed is that it has maintained high occupancy rates of at least 94% since 2010, while increasing its average net rent every year.

RioCan is relatively cheap compared to the normal valuation the stock has traded since 2010. With a funds-from-operations payout ratio of about 80%, RioCan should be able to maintain its monthly distribution.

Is RioCan a better income generator than a GIC?

At the recent quotation of $24.86 per share, RioCan offers a distribution yield of almost 5.8%. The best one-year rate of a guaranteed investment certificate (GIC) of $5,000 is 2.8%. So, RioCan offers income that's more than double that rate.

RioCan used to trade at a slight premium multiple of more than 15. If the stock trades at a multiple of 15, it will have modest price appreciation of about 8%.

While GICs guarantee that you'll get your principal back and the interest that it promised you, RioCan offers a higher yield and some upside potential. However, keep in mind that investors are indeed taking on more risk by investing in RioCan because in the short term, stock prices are volatile. And in the long term, stock prices will eventually follow the fundamentals of the company.

REIT distributions are more favourably taxed than interest income from GICs. For example, in 2017, RioCan had 27.48% of its distribution categorized as capital gains. Half of this portion of the distribution was taxed at your marginal rate. So, even if you were to generate the same yield from REITs and GICs, your REIT income will most likely be taxed at a lower rate.

Investor takeaway

By investing in a portfolio of discounted REITs that generate sustainable cash distributions, investors should be able to generate more income than by investing in GICs.

Just note that there's greater risk in investing in REITs than investing in GICs, and therefore you should also expect greater returns (likely mostly in the form of income) from REITs.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:REI.UN (RioCan Real Estate Investment Trust)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date

2025/08/06
Date Created
2018/07/29
Author
kayng