



Dividend Income Investors Should Buy 1 of These 2 Retail REITs

Description

REITs in both Canada and the U.S. are considered by many experts to be dead money at the moment in the wake of rising interest rates.

However, the reality is that here in Canada, REITs are still performing. According to Joshua Varghese, portfolio manager at Signature Global Asset Management, part of **CI Financial Corp.**, Canadian REITs over the past two years generated a 14% return versus those in the U.S. that went sideways.

It's hard to know why this is the case.

Perhaps the average Canadian is simply behind the real estate investment trend, which offers hope to the shareholders of **RioCan Real Estate Investment Trust** ([TSX:REI.UN](#)) and **SmartCentres Real Estate Investment Trst** ([TSX:SRU.UN](#)), two retail REITs fighting it out for Canadians' hard-earned savings.

Which is the better buy?

RioCan is in the midst of a major transition that will see it focus on the six major Canadian cities moving away from big-box retail toward mixed-use developments in the urban core where it not only rents out space to retailers but also to city dwellers interested in rental apartments in the heart of downtown Toronto or one of the other five cities.

Although I've long been a [fan](#) of **First Capital Realty Inc.** over RioCan, I can't fault CEO Ed Sonshine's logic for narrowing the company's focus to the urban core where most young Canadians want to live.

Not to mention the 20,000 or so residential units it will add over the next few years will significantly diversify its revenue streams, making it far less susceptible to retail and economic slowdowns.

Yielding 5.7% at the moment with five to 10 years of significant growth ahead of it, it's hard not to like RioCan stock.

What about SmartCentres?

Yes, I know; I did say earlier that big-box retail is so 1990s, but that doesn't mean SmartCentres can't be successful at it.

Fool contributor Joey Frenette recently threw out the idea to Foolish readers that owning SmartCentres stock was a [better way](#) to play the resurgence of **Walmart**, whose U.S. brick-and-mortar stores along with its e-commerce and grocery businesses are doing better than at any time in the past decade.

Personally, I believe that Walmart's 2.2% dividend yield isn't all that bad for the world's largest retailer, which just also happens to be keeping up with **Amazon.com's** growth in e-commerce.

That said, this isn't an article about Walmart. So, which of SmartCentres and RioCan is a better buy?

Interestingly, they're both yielding around 5.5% as I write this, an attractive return on your investment to be sure. If you're a dividend income investor, it's hard not to like both of them.

Continuing on Joey's hypothesis, SmartCentres has 115 Walmart-anchored centres across Canada, many of which possess significant swaths of vacant land ready for further mixed-use development.

While RioCan is building in the core, SmartCentres is focusing on areas of cities like Toronto where people can actually afford to live. As real estate prices keep rising in Toronto and Vancouver, that could be a real benefit to SmartCentres.

The verdict

This is a tough one because both are yielding the same amount. However, for me, it comes down to two metrics.

First, SmartCentres's debt is about 100% of its market cap compared to 76% for RioCan. Secondly, SmartCentres's debt is 8.5 times adjusted EBITDA compared to a multiple of 7.7 for RioCan.

SmartCentres isn't a bad stock. RioCan is simply the better buy, in my opinion.

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