Are REITs the Way to Go for Income Investors Right Now?

Description

Back in late 2017, I'd discussed whether REITs were a better investment than alternative lenders heading into the new year. As it turns out, the much-feared real estate apocalypse did not come to pass after the OSFI elected to shift mortgage policy and include a stress test for uninsured buyers. The market has still cooled dramatically from the heights we saw in the spring of 2017, but there has been marked stabilization.

Genworth MI Canada (TSX:MIC) was my top housing pick back in June, as the private insurer has benefited from an improving environment. Genworth stock has increased 1% in 2018 and 8.8% over the past three months. The stock also offers an attractive 4.2% dividend yield that is paid quarterly.

Canada housing is still an area of concern for policy makers. The Bank of Canada has continued to cite housing as a reason for its gradual rate path. According to a recent global house price index published by *The Economist*, Canada is the third most overvalued country in the world for real estate. The index indicated that values are 56% higher than it should be based on average income.

Today, we are going to look at two REITs that offer a higher yield than Genworth and could be a solid target in an improving, if still slightly overheated, housing climate.

RioCan REIT (TSX:REI.UN)

RioCan REIT stock has climbed 3.7% in 2018 as of close on September 4. Shares are up 6.3% year over year. The Toronto-based REIT released its second-quarter results on August 8.

Funds from operations per unit rose 2.5% year over year to $0.46 and grew to $0.92 for the first six months of 2018. This represented a 4.3% increase from the prior year. Same property NOI rose 2.1% year over year with major markets posting 2.5% growth compared to flat performance in secondary markets. RioCan offers an attractive monthly dividend of $0.12 per share, representing a 5.6% dividend yield.

H&R REIT (TSX:HR.UN)

H&R REIT stock has dropped 5.8% in 2018 so far. Shares are down 6.6% year over year. The company released its second-quarter results on August 9.

Like other REITs, H&R has been moving to strike off secondary assets and consolidate its holdings in major markets. This has also been practiced by RioCan and has paid off in recent earnings. H&R sold 63 lower growth U.S. retail assets in the second quarter for $633 million. It also made a number of smaller sales, including its ownership interest in FIRST Tower in Calgary for $53.5 million.

Rentals from investment properties climbed 2.5% year over year to $294.3 million and property operating income rose 4.9% to $201.1 million. However, net income continued to slide and fell 29.3% from the prior year to $108.2 million. H&R also offers a monthly dividend of $0.115 per share, representing an enticing 6.8% dividend yield.

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