15% of Your Portfolio Could Be With These 3 Investments

Description

A healthy portfolio should be relatively balanced across sectors, which could include exposure to real estate investment trusts (REITs). If you want to allocate 15% of your portfolio to REITs, choose two large ones mostly for income and slow growth and one small one for income and fast growth, roughly sized as 5% of a portfolio (or less) for each stock.

Here's one way to do this with this trio of stocks.

RioCan REIT (TSX:REI.UN)

One of the largest REITs in Canada, RioCan, with a $7.8 billion market cap, has ranged in value recently between $7 and $9.5 billion. The plateau is primarily due to the rolling over of assets from nearly exclusive retail to mixed-use real estate assets. Diversification and urban intensification will undoubtedly help RioCan pick up momentum.

Share prices were decisively down, as investors pulled money out of this sector. But RioCan has rebounded nicely. With the solid dividend, buying RioCan shares is a way to build income, while building growth through big-ticket projects that, over the long run, will increase RioCan's net asset value.

Canadian Apartment Properties REIT (TSX:CAR.UN)

CAPREIT has been a market beating over the last three years, largely ignoring any downward trends for this sector and remaining unscathed from investment fears of an e-commerce squeeze on retail stores. Instead, as a pure residential play, the secular trend towards more people opting to rent is a tailwind.

Retained earnings increased 98% in three years, which explains why this stock has been on an absolute tear, up 72% over the same period.

Investors may not typically think of REITs for capital appreciation; CAPREIT is clearly an outlier in this department — in a good way. After a large run since March, I am hard-pressed to recommend it now, instead advising to wait for a pullback. I'm personally looking for a 10% pullback to add to this winning holding.

Inovalis REIT (TSX:INO.UN)

If you are looking for a combination of a small cap, big yield (7.85% dividend), and geographic diversity, then Inovalis REIT could be the one. This $250-million-market-cap company manages $10 billion in real estate (and other financial assets) by owning portions of office properties in Germany and France.

Assets in two strong European countries is a stable investment opportunity over the long run. German real estate is particularly *apropos*. One of the world's best investors, Warren Buffett announced in March a new business arrangement with a German real estate firm that oversees high-priced apartments in Germany.

Inovalis owns a portion of eight French and six German properties. Many of these commercial buildings have nearly perfect occupancy. Inovalis has been a solid investment because — in addition to that large dividend and the decent track record of consistent funds from operations to keep that dividend going — the share price has risen ~20% in three years.

I am expecting management to continue to chip away at owning more properties. They recently secured $22 million in new funds from a non-Canadian institutional investor. The deal is interesting because as a convertible note, it means the loan could be flipped to shares, which would be a vote of confidence in supporting Inovalis.

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