How You Can Counter Market Volatility With the Right Investment

Description

Real estate investment trusts, commonly referred to as REITs, have served as incredible investment options for investors looking to maximize their earnings due to their unique business model, which effectively requires REITs to offer handsome dividends with mouth-watering yields that are typically above 5%.

The properties that REITs invest in vary depending on the focus of the particular company. Some operate in a niche serving residential markets outside the major metro areas, while others focus primarily on commercial and retail properties in densely populated areas.

Why REITs are risky at the moment

While REITs provide lucrative income, they do have their fair share of problems. First, rising real estate costs across Canada are making it more expensive for REITs to purchase and develop new properties. By way of example, a typical home in Toronto and Vancouver can now fetch $1 million, which would make the typical larger properties targeted by REITs significantly more expensive.

The cost of real estate in Canada's metro areas is also pricing out first-time home buyers entirely, who are now tasked with moving to the suburbs, where affordable housing still exists but lacks the retail and entertainment amenities that younger home buyers are looking for.

Adding to that pricing issue is the fact that interest rates are on an upward trend, which increases the cost of any borrowed capital to develop or acquire new properties. At best, this scales down future development opportunities and at worst, could completely erode margins and lead the REIT needing to divest some of its portfolio.

Turning to retail and commercial-focused REITs, there's another headwind to take into consideration — the changing habits of shoppers. Shoppers now lean towards doing more of their shopping online, where the quick turnaround completely removes the need to visit a shopping mall. That declining store traffic leads to lower revenue for some retailers, which translates into a slow but increasing vacancy rate for retail stores.

If the current bull market is truly beginning to lose steam, spending could decrease and cause more issues.

The solution to the REIT problem is unique

RioCan REIT (TSX:REI.UN) has devised a brilliant plan to become a hybrid-type of REIT that takes the strengths, but not the weaknesses noted above. RioCan is traditionally regarded as one of the largest REITs in the country, catering to predominately commercial retailers and anchor tenants in large shopping centres.

By divesting some of those properties and redeveloping others into mixed-use residential-commercial properties in highly trafficked urban metro areas, RioCan is creating a new generation of developments that will provide a steady stream of income for years.

RioCan's first developments in Toronto are slated to be complete within the next year, with other locations to follow. The new residential towers, which the company has dubbed RioCan Living, offer top-of-the-line amenities to residential customers, and the dwellings are situated atop several floors of retail, making the entire structure a live-work-play mixture that should keep residents in a prime urban location, have shopping and work locations within walking distance of their homes, and keep a steady stream of traffic for retailers on the lower levels.

To finance the 10,000-residential-unit endeavour, RioCan targeted $2 billion in properties to offload, of which $1.2 billion has already been raised.

An important point to note is that as RioCan sells some of its assets, the loss in revenue that those sold properties once contributed becomes evident during earnings season. Investors that only see net income down by a significant portion, such as the 28% drop in the most recent quarter, are not seeing the full picture and opportunity posed by the investment being made into RioCan Living

If the growth opportunity presented fails to entice, then RioCan's very attractive monthly distribution that yields 5.97% may just be the deciding factor.

CATEGORY

1. Investing
2. Stocks for Beginners

TICKERS GLOBAL

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

PARTNER-FEEDS

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

Category

1. Investing
2. Stocks for Beginners

Date
2025/08/23
Date Created
2018/10/31
Author
dafxentiou