# Why You Should Buy This Diversified REIT

## Description

**H&R Real Estate Investment Trust** (TSX:HR.UN) is one of Canada's largest and most diversified REITs. The company's third-quarter results were mixed, however. Although H&R's third-quarter net income increased by 33% year over year, the company's funds from operations, which is one of the most important figures for REITs, decreased by 9.5%. Despite these varied results, I still believe H&R is a buy; here is why.

**Current year's activity**

H&R spent much of the year selling various properties it owned. In the company's U.S market, which is home to 31% of its assets, H&R sold 63 retail properties for a total income of U.S $633 million. The REIT also sold ownership interest in some of its Canadian industrial properties. H&R management cited slow growth from these operations as the main reason why they decided to part with them. The company chose to reinvest the proceeds into rental properties in the U.S.



The sale of 63 retail properties had a negative impact on H&R's earnings and funds from operations. The company realized a net loss on the sale due to mortgage prepayment penalties and closing costs. H&R is currently taking steps to enhance its growth prospects, however, and investors should focus on the effects these recent transactions will have on H&R's financial performance in the future rather than the negative impact they had on H&R's latest earnings report.

**Growth prospects**

REITs that own retail properties generate income by collecting on the rent they charge tenants (which are retail businesses). The long-term growth prospects of such REITs are tied to the financial performance of the tenants.

In times of adverse economic conditions, tenants can fail to make their monthly payments, thus directly affecting the income of the REIT that owns the property. The quality of its tenants is, therefore, an important factor when analyzing a retail REIT or the retail portion of a diversified REIT.

H&R's decisions to drop many of its U.S based retail properties and replace them with residential properties in the company's portfolio is not new. This trend has been ongoing for the past couple of years (dropping by 7% during this period), and with good reason. Whereas the most successful retail REITs host large and reputable retail businesses, most of H&R's U.S retail properties were occupied by relatively small businesses with little opportunity for growth. H&R's management did not see this strategy as a successful long-term one and decided to move in another direction.

H&R is choosing to narrow its focus by taking on fewer types of properties, especially by purchasing more rental properties, which currently make up a minority of the REIT's portfolio. In addition to its decision to shift its focus from its lagging U.S retail operations, which will most likely yield benefits in the future, H&R offers many of the typical benefits of REITs.

The company currently offers a 6.47% dividend yield and is one of the rare companies that issue dividend payouts every single month. H&R is also a great option for those investors looking for a low volatility stock, especially given the recent turmoil the global stock market has experienced.

With solid growth prospects, a high dividend yield, and low volatility, H&R is one of the top REIT stocks on the TSX for 2019 and beyond.

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