



Better REIT for 2019: RioCan (TSX:REI.UN) or Artis (TSX:AX.UN)?

Description

It is difficult to compare two REITs and decide which is the objectively better investment option. Each REIT sector has its unique concerns and idiosyncrasies, which come with a diverse pool of potential benefits and risks for investors depending on their goals and preferences.

It is, however, much easier to compare two REITs and figure out which will likely perform better in a given economic climate. Let's look at two of the largest REITs in Canada: **RioCan REIT** ([TSX:REI.UN](#)) and **Artis REIT** ([TSX:AX.UN](#)). Which will post stronger financial results in 2019?

RioCan REIT

With a market cap of about \$14 billion, RioCan is the largest REIT in Canada. The company has properties in most of Canada's major markets, including Toronto, Ottawa, Montreal, Vancouver, etc. The firm's strategy is precisely to focus on these markets.

In accordance with its strategy, RioCan has been selling properties in secondary markets over the past few years, arguing that while these properties provide a steady income, they do not have the same opportunities for growth as those in large metropolitan areas.

RioCan highlights the growth in population and rise in rental prices over the years in primary markets, which far outweigh those of the secondary markets. RioCan owns retail and rental properties that are strategically located to attract a certain high-end clientele.

The average income of RioCan's tenants in its rental properties far exceeds that of the average Canadian. Similarly, the firm's retail properties are home to some of the [biggest retailers](#) in the country, including **Wal-Mart**, **Safeway**, **Home Depot**, and others.

These variables make the financial performance of RioCan intimately tied to the country's economic conditions. Retailers — particularly those in major metropolitan areas — perform well when the economy is booming, and their results tend to lag when the economy slows down.

Rental properties follow a similar cycle that closely mimics the economic prosperity of the country. The Canadian economy is currently growing, although the rate of growth is slowing down. While there will undoubtedly be ups and down, enthusiasm for 2019 is relatively high.

Artis REIT

Artis REIT owns properties in the U.S. and Canada. The company generates the majority — about 60% of its net operating income (NOI) — in its Canadian market. Artis owns three types of properties: retail, industrial, and office properties.

Artis owns a mix of properties in both primary and secondary markets. Since most (55%) of the company's ROI is derived from office properties, let's focus on the particularities of this sector of the REIT industry first.

Office properties are a notoriously cyclical and potentially volatile real estate sector. Building office properties and finding prospective tenants takes a while, which can cause overbuilding issues for the REITs that own them if demand drops once the office space is completed.

While location is always important for REITs, office REITs are even more concerned with shrewdly choosing where they will do business. For their purposes, office REITs do not necessarily need to set up shop in large metropolitan areas.

Secondary markets where job growth is steady are often just as good for office REITs; these are the markets Artis tends to occupy. Because office properties have longer leases than other types of properties, office REITs are more likely to be tied to long-term contracts.

Industrial properties require less time to build, less capital, less maintenance costs, and are usually in high demand. Artis's industrial properties help offset the higher risk the rental office portion of its portfolio brings.

The verdict

Both REITs seem to be relatively well positioned. RioCan has a much stronger presence in Canada's primary markets, though, and these markets will likely perform better than the secondary market Artis occupies in 2019. Therefore, I would currently give the edge to RioCan.

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