REIT Investing: Retail vs. Residential Holdings

Description

Real Estate Investment Trusts, or REITs for short, remain one of the most lucrative ways for potential investors to take advantage of the current real estate market without actually signing a mortgage or chasing down tenants for the monthly rent. Additionally, the distributions that many REITs offer come with an appetizing monthly distribution schedule, further replicating the satisfaction a landlord gets from a monthly income stream.

One REIT that has raised the attention of investors everywhere over the past year is **RioCan** (TSX:REI.UN), and investors everywhere should seriously consider the stock for a variety of reasons.

RioCan offers the best of both worlds

There are REITs for nearly every conceivable slice of the market, such as hotel properties, retail properties, industrial space, office space, residential single-family, residential-multi-family, and a dozen other permutations. RioCan is primarily known for its focus on retail properties, such as shopping malls and large retail spaces, but the company also has some office and warehouse space as well. In total, RioCan's portfolio spans over 250 properties in markets across the country.

While that may sound appealing, what RioCan is working on next is set to provide massive upside for investors.

Retail growth has slowed in recent years, particularly as mobile commerce has grown exponentially at the cost of traditional retail foot traffic. In fact, RioCan founder and CEO Edward Sonshine believes that there is no longer any growth to be realized from the retail sector over the next decade. Instead, the opportunity for growth lies in the residential market.

Home prices, while down from their record high, remain at unaffordable levels across Canada's major metros, particularly for first-time millennial buyers and new immigrants, leading many to seek out rentals in those metro areas that provide access to transit, jobs, and shopping.

RioCan's solution to this is to offer mixed-use properties in areas that have easy access to the amenities that draw people to metro areas. The company already has eight of these hybrid properties — branded as RioCan Living — encompassing 2,300 units under construction in Calgary, Ottawa, and Toronto, and the first two properties are set to be completed by this summer.

Concurrently, RioCan is also doubling down on its investment in those major metro areas by exiting some of the smaller markets in the country in lieu of the larger ones. The logic behind this decision is sound; higher demand for housing within those metro areas with local access to transit, jobs, and shopping has driven prices up. Approximately 75% of RioCan's rental stream comes from major metro areas currently, but the hope is to get that number to 90% within the next year.

That's not to say that RioCan is exiting the retail market altogether; even with all of the new properties under development, the residential arm of RioCan's portfolio will only make up 10% of the overall assets, which could prove intriguing to investors looking for a more diversified approach.

Should you buy RioCan?

Speaking as a potential investor in RioCan, I can see two attractive reasons why investors would want to consider this stock.

First, RioCan offers a diversified portfolio of investments that is only going to grow with the addition of the residential segment. While RioCan isn't the only REIT looking more into the residential market, the company has a solid approach and deep pockets through asset sales to better finance this new venture over most of its peers.

Second, let's take a moment to talk dividends. The current monthly comes in at a very impressive 5.87%, which could provide a decent income for some investors. Also worth noting is that RioCan has decreased its payout ratio over the past few years, resulting in a more secure distribution for potential investors.

Throw in the fact that RioCan has hiked its dividend over a dozen times over the past two decades, and you have a solid option for nearly any portfolio.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

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

Tags

1. Editor's Choice

Date
2025/07/26
Date Created
2019/01/16
Author
dafxentiou