This Could Be the Biggest Real Estate Investment of the Year

Description

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The importance of diversifying your portfolio is something that can't be understated. Investors were reminded of that lesson over the holidays last year, as the market erased what was until that point, a good year. Fortunately, a strong start to 2019 has erased much of those losses, but it doesn't negate the need to properly diversify.

One company that I'm increasingly interested in is **RioCan REIT** (TSX:REI.UN), which is one of the largest REITs in the country. RioCan's portfolio consists of mostly large retail holdings, such as shopping malls. While this model caters to large anchor tenants that represent most of the largest names in the retail sector, the sector itself has come under threat in recent years due to the changing face of retail.

Consumers are increasingly turning towards e-commerce and browsing with their smartphones and tablets rather than physically going to stores. This has left traditional retailers at a significant loss, as their dated business models, which correlate success to the size of their showroom, had, until recently, no place for a mobile shopping experience. Some retailers have responded to that threat already, and others, such as Sears Canada, have folded as a result of that change.

Needless to say, RioCan could find itself with an increasing number of vacant properties, unless it too can diversify its portfolio. Company CEO Edward Sonshine alluded to this recently, noting that the demand for retail space will likely remain flat over the next decade. For a company whose portfolio is largely based on renting out large swaths of retail space, that doesn't sound too encouraging.

Fortunately, RioCan has other plans, and they are, for lack of another word, brilliant.

RioCan's incredible opportunity to change the market

In addition to the reduced foot traffic to traditional retailers, real estate prices in Canada's major metro areas remain at extremely high, if not crazy, levels. To even consider that small post-war bungalows in Toronto are selling for nearly a million dollars would be unthinkable a few years ago, but that's what the market is coping with at the moment, as prices have shot up and supply has dwindled. In addition, millennials entering the job market and looking for a place to live are increasingly being pushed to the suburbs, where rents are more affordable, but commutes are longer.

The perfect, yet unattainable scenario for those young professionals is accommodations within the city that can offer all the modern conveniences that city life can offer, while being close to the job market and affordable. Fortunately, that scenario is precisely what RioCan Living is bringing to market.

RioCan is in the process of building centrally located buildings within major metro areas that combine several floors of retail with housing units. Several buildings are already planned across major metro areas of the country, with the first units in Toronto set to be completed later this year. In total, RioCan is targeting a whopping 10,000 new residential units as part of its RioCan Living portfolio, spread across 50 properties in different markets within the next six years.

From a cost standpoint, RioCan is using the decline in retail demand to help finance the project. Selling non-core assets from RioCan's pool of properties is slated to provide $2 billion towards the venture, most of which has already been procured through sales that began last year.

If that weren't reason enough to consider RioCan, then perhaps the appetizing monthly distribution may help potential investors take the plunge. RioCan's current yield stands at 5.74%, making it not only one of the best long-term growth plays, but also an attractive income generator.

While there are risks associated with RioCan's shift towards mixed-use properties, the long-term opportunity for investors remains massive, provided that they can stomach some short-term volatility through the adjustment.

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