Income Investors: Here Is Why You Should Trust REITs in 2019

Description

In the summer of 2018, I asked whether REITs were a good option for income investors. At the time I'd recommended some of the top REITs available on the TSX, which came at a nice value in the middle of July. As it stands today, REITs are looking more and more attractive as a source of income in the short-to-medium term.

One reason for this is a softening outlook on rates from the Bank of Canada. The threat of rate tightening had put the squeeze on retail stocks over the past two years. Real estate turbulence in late 2016 and early 2017 spread to REITs. Now that the central bank has largely shifted course, market turbulence and slumping growth has forced down the odds of a rate hike in 2019.

Not only will this alleviate pressure on the broader real estate sector for both residential and commercial, but falling bond yields will drive those seeking income back into the arms of equities. Today we are going to look at two REITs that are worth trusting as we look ahead to 2020.

RioCan REIT (TSX:REI.UN)

RioCan is the second-largest real estate investment trust in Canada. Shares had climbed 7.1% in 2019 as of close on March 13. The stock was up 6.6% year over year.

The company released its fourth-quarter and full-year results for 2018 on February 12. RioCan moved to optimize its portfolio in response to market forces over the past several quarters. This involves a reorientation primarily for major markets as well as a focus on expanding its transit-oriented mixed-use portfolio.

The stock last paid out a monthly dividend of $0.12 per share, which represents an attractive 5.6% yield.

H&R REIT (TSX:HR.UN)

H&R REIT is the third-largest real estate investment trust in Canada by market capitalization. The stock was up 10.9% in 2019 as of this writing. Shares were up 12.6% from the prior year.

H&R released its fourth-quarter and full-year results for 2018 on February 14. The company has also undergone a strategic shift that involves selling off lower growth retail assets and focusing on its core portfolio. It sold 63 of these U.S.-based assets for $633 million in 2018 and reinvested the proceeds in higher growth U.S. residential assets.

For the full year, funds from operations (FFO) fell 6.1% to $525 million, while same-asset property operating income rose 1.2% to $730.8 million. Rentals from investment operations increased 0.7% from 2017 to $1.17 billion.

H&R stock last paid out a monthly dividend of $0.115 per share, which represents a 6% yield.

As far as value is concerned both stocks have improved marginally over the past few weeks. These equities are not discounted by any means, but the high yield makes them a still-suitable target for income investors.

H&R is trading at the high end of its 52-week range and boasts an RSI of 57, outside of overbought territory. RioCan is also trading close to its 52-week high and had an RSI of 65 as of close on March 13. Value investors seeking income will want to exercise patience rather than pull the trigger right now.

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