3 Reasons to Celebrate This Real Estate Gem

Description

Over the past few weeks, the market has been more volatile than usual. While the reasons for that volatility may vary greatly, investors are increasingly turning towards defensive investments that could weather a prolonged slowdown in the economy.

One unlikely investment to consider is **RioCan** (TSX:REI.UN). As one of the largest REITs in the country, RioCan boasts a portfolio of 230 properties with a leasable area that surpasses 39 million square feet. A good part of that portfolio is focused on large retail properties such as shopping mall anchor tenant properties, but the company has shifted away from that segment in recent years and moved towards a growing opportunity in the residential segment, brought on by the current unaffordability of real estate.

Addressing the home and commercial real estate problem

Depending on who you ask, there may or may not be a real estate problem at all. In recent years, homeowners have watched the value of their homes skyrocket to the point that small bungalows in Canada's major metro areas can fetch nearly a million dollars. As interesting as that sounds, this means that younger Canadians that are already burdened with higher debt levels cannot afford a downpayment on those properties. As a result, many first-time buyers are being forced to move outside the in-demand metro areas where more affordable housing still exists.

At the same time, traditional brick-and-mortar retail, which for many years was the bread and butter of RioCan, is steadily dropping off, as consumers continue to embrace mobile commerce. Even grocery stores, which were once believed to be immune to the threat of mobile commerce, are now embracing online ordering and delivery services. The result is a drop in foot traffic to physical stores, and, eventually, stores closing.

RioCan came up with a solution that caters to both of those problems, which the company refers to as RioCan Living. In short, the REIT is constructing a series of mixed-use properties in high-demand areas of Canada's metro areas. The properties consist of residential towers that sit on top of several floors of retail that's located in high-demand areas. This meets the goal of younger Canadians looking for a residence that is closer to work, entertainment, and shopping, and it provides some commercial retail space.

Strong profits, with further growth expected

Earlier this month RioCan announced results for the second fiscal quarter. During that quarter, net income amounted to $253 million, or $0.83 per diluted unit, reflecting a handsome gain over the $111.4 million, or $0.35 per diluted unit, reported in the same period last year.

FFO for the quarter came in nearly flat year over year, with RioCan reporting $144.7 million, or $0.44 per diluted unit. In the same quarter last year, FFO was $145.3 million, or $0.46 per diluted unit.

Turning towards the future, RioCan has a large portfolio of sites that are either planned or under-construction projects that will eventually add to the company's bottom line. This includes 41 potential new residential products encompassing 20,000 potential units and 2,700 units that are currently under construction across the six major metro areas in the country.

RioCan can be an income source

While RioCan's growth plans are noteworthy, the dividend offered by the REIT is something that should be equally attractive to investors. The current distribution amounts to a monthly payout of $0.12 per share, which works out to an appetizing 5.50% yield.

In terms of income growth, the REIT has provided handsome returns spanning back over two decades, which, combined with the handsome yield, more than offsets the less-than-annual bump that RioCan offers.

In short, RioCan checks all the boxes on being an ideal long-term investment option for nearly any portfolio.

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1. TSX:REI.UN (RioCan Real Estate Investment Trust)

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