Long-Term Investors: 1 of the Best Real Estate Funds in Canada

Description

Real estate is one of the top sectors you can count on in a downturn, as it's crucial to the livelihood of everyone. This makes it more recession proof than other industries, especially if it's residential real estate or commercial real estate with defensive tenants such as grocery and drug stores.

The vast scale and diversity of the many funds' portfolios across Canada, managed by professionals, offers investors unmatched opportunities. Add to that the fact that most REITs pay hefty dividends, and it sounds like an investment is a no brainer.

One no-brainer real estate stock is **RioCan Real Estate Investment Trust** (TSX:REI.UN).

RioCan is one of the best REITs in Canada as well as one of the largest. It is a large-scale, high-quality operator that strategically focuses the bulk of its portfolio in six major markets. Toronto, Montreal, Ottawa, Edmonton, Calgary, and Vancouver make up almost 90% of its annualized revenue.

It is a top real estate fund known for operating high-quality projects in high-volume areas. Between the operations of its projects that are up and running, and the incubation of growth projects, RioCan offers investors unmatched management on its portfolio.

As of the end of the second quarter in 2019, the fund had 230 properties with 39.1 million square feet of net leasable area. In addition, it also has another 27 million square feet of developments in its growth pipeline, nearly half of which already has zoning approvals. The same-property net operating income came in up 2.9% in the quarter — a respectable amount.

RioCan's portfolio is extremely strong, evidenced by a commercial occupancy rate of about 97%. Its tenant base is also strong and diversified with no single tenant accounting for more than 5% of revenue.

It continues to strategically position itself in Canada's major markets with plans to have more than 90% of revenue coming from the six major markets and 50% coming from the GTA alone.

It plans to continue to try and self-fund projects as much as possible while continuing to manage its debt. Its debt to adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) is just 7.9 times — not bad for a REIT and below its peer average. Its interest coverage ratio is also 3.5 times, showing it can considerably cover its interest payments.

RioCan Living, the residential segment has been growing rapidly, building best-in-class rental units. The growth pipeline has potential for 41 residential projects that could total up to 20,000 units.

The fund is a top performer with trailing 12-month return on equity at nearly 10%. It's trading at a fairly valued price as well, with its price-to-book ratio being just one times. On an earnings basis, it's also cheap, trading at a price-to-earnings ratio of just 11 times, which gives it an earnings yield north of 9%.

Bottom line

RioCan is one of the best real estate funds for investors to buy today, because it's such a top performer, but also because it's trading for so cheap. The combination of finding top companies that aren't too overvalued will almost certainly be the best strategy in the long term.

Buying it cheap is key, though, as your entry point can make a significant difference in how much return your investment will end up making you.

CATEGORY

1. Dividend Stocks
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TICKERS GLOBAL

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

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