2 Retail Real Estate Stocks to Buy for Income and Growth

Description

The real estate industry is a staple in the economy, and though residential real estate is the most stable, diversifying in the sector is key.

Some of the best opportunities lie in retail real estate companies, especially those that have a strong tenant base and high occupancy.

By finding companies with high-quality occupants, you are finding some of the safest and best assets in Canada as a whole.

This is because, when investing in real estate, investors are more or less investing in the success of the underlying tenants, since the biggest risks real estate companies face lies with their tenants and their ability and need to continue to rent space.

That's why it's crucial to have a strong customer base, so you know the cash flows can remain stable.

Two of the top retail real estate investment trusts in Canada are **CT REIT** (TSX:CRT.UN) and **Choice Properties REIT** (TSX:CHP.UN).

CT REIT

CT REIT is the real estate fund that has all the **Canadian Tire** brands as its tenants.

In fact, more than 90% of CT REIT's base minimum rent comes from Canadian Tire's stores. It has nearly 350 properties with more than 27 million square feet of leasable area.

It's a solid company that is highly risk averse. Its weighted average remaining lease term is roughly 10 years, and those contracts have embedded price growth in them, which will help the fund to increase its sales organically.

The performance of it is strong and consistent, with its five-year NAV/unit increasing at an impressive compounded annual growth rate (CAGR) of 7.1%.

Its occupancy rate is high and stable at 98.8%. This is reassuring, especially for investors most concerned with passive income.

The dividend today yields just over 5% and has a payout ratio of just 75% of adjusted funds from operations (AFFO). CT REIT's AFFO has grown at a more than 5% CAGR the last five years, which is positive, because it adds more stability to the dividend, while allowing it to continue to grow.

From a debt point of view, CT REIT is in a strong position, with an interest coverage ratio above 3.35 times and debt to earnings before interest, taxes and fair-value adjustments (EBITFV) ratio of nearly seven times.

The debt it does have has staggered maturities, adding yet another layer of protection for investors on what are already highly stable financials.

Choice Properties REIT

Choice Properties is one of the largest retail real estate funds in Canada. It has more than 725 properties and over 65 million square feet of leasable space. Although some of these assets are other sub sectors of real estate, such as industrial properties and offices, more than 575 of its properties are retail assets.

Through the first nine months of the year, its rental revenue is already up more than 17%, while its cash flow from operating activities is up a whopping 34%.

Nearly three-quarters of its revenue comes from large- and medium-sized urban markets, which gives it strength and exposure to the fastest-growing populations. In addition, it has a well-diversified base of city and regions it serves.

Its occupancy rate is strong but slightly less than CT REIT at 97.8%. Although it is lower than CT REIT's, its portfolio is so large, it is to be expected that its occupancy rate would be a little less.

Its outlook looks promising, with a number of developments in its pipeline, all with different sizes and across its many operating jurisdictions. Though it has strong plans for growth, Choice Properties is always sure to not over leverage itself and keep its risk manageable.

Financially, it is very strong. Similar to CT REIT, its interest coverage ratio is 3.5 times and its debt to EBITFV is also very strong.

Th company generated $0.25 of funds from operations in the quarter versus dividends of $0.185, which yield 5.5% and give it a payout ratio of just 74% on an annual basis.

Bottom line

If you have done your homework and know you are investing in well-run companies with good solid assets, you can sleep easy knowing you are invested in the stable real estate sector.

On top of the safety that exists, though, these funds are great passive-income generators and can provide solid appreciation in the unit's price.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CHP.UN (Choice Properties Real Estate Investment Trust)
2. TSX:CRT.UN (CT Real Estate Investment Trust)
3. TSX:CTC.A (Canadian Tire Corporation, Limited)

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