REIT Investing: Are There Safe Options?

Description

When it comes to REIT investing, investors are expecting solid passive income coming in monthly. As such, reliable cash flow is a major key when choosing REITs to invest in.

Now, given the current economic conditions, REITs might not be people's first choice for an income investment. While most stocks have been hit this year, REITs have been hurting especially hard.

This is because reduced rent-collection rates have hurt earnings and cash flow. While most REITs have brought their figures back up, many are still way below target.

However, there could still be safe options out there in the REIT investing space. Investors must be careful in selecting REITs though.

Today, we'll look at two REITs and determine whether they're reliable income investments.

RioCan

RioCan REIT (TSX:REI.UN) is one of the largest REITs in Canada, boasting a real estate portfolio containing net leasable area of around 38.4 million square feet.

While RioCan is down big this year, it does offer some promising statistics. It has a vacancy rate of only about 4% with a rent collection rate of over 93%.

Its portfolio of properties is also well diversified, with no single tenant making up more than about 5% of the total portfolio.

This information seems to suggest RioCan could be in a decent position for REIT investing moving forward. However, by digging a little deeper, investors will stumble upon some troubling data.

As of this writing, RioCan is sporting earnings per share of $0.06. Its dividend yield sits at 7.82% as of this writing, which means it pays a dividend of $1.44 per share.

While that yield of 7.82% might be enticing, the FFO payout ratio is a little higher than investors would like to see. The reward is there in the form of a 7.82% yield, but the risk is too.

The point is, that RioCan's dividend doesn't appear to be overly safe. We've seen other REITs cut their dividends this year, and this one could potentially follow suit.

Choice

Choice Properties REIT (TSX:CHP.UN) is another large Canadian REIT. It too has experienced losses in the market this year due to economic conditions.

Choice is largely focused on retail properties, as evidenced by its real estate portfolio. Naturally, investors probably aren't too keen on retail-heavy REIT investing at the moment.

However, Choice is different than most of its peers. This is because it has a strategic partnership with grocery heavyweight **Loblaw**.

Loblaw is the main tenant that anchors Choice's retail properties. As a household name providing essential goods, it's remained open this year and continued to deliver solid results.

This helps Choice, as it need not worry about the stability of its tenant. This reliability bleeds through to the dividend, where Choice is offering a yield of 5.53% and easily covers that with FFO (payout ratio is around 90%, which is standard for REITs).

If you're looking for a safe REIT investing option, Choice makes for a great pick due to its reliable positions and solid portfolio.

REIT investing strategy

Both these picks for REIT investing offer Canadians various advantages. While Choice's yield is solid, the stability of RioCan's dividend might be a little shaky for many passive-income investors.

The reward is out there for investors willing to take risks, but there are still safe options like Choice available in the REIT investing space.

CATEGORY

1. Dividend Stocks
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TICKERS GLOBAL

1. TSX:CHP.UN (Choice Properties Real Estate Investment Trust)
2. TSX:REI.UN (RioCan Real Estate Investment Trust)

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