



Canadian REITs: Is RioCan or Canadian Apartment Properties REIT a Better Buy Today?

Description

Income investors and those looking for ways to get exposure to the Canadian real estate [sector](#) are searching for top REITs that can pay reliable distributions and offer attractive total returns.

RioCan

RioCan ([TSX:REI.UN](#)) owns shopping malls primarily located in Canada's six largest urban markets. The company is also building mixed-use properties along key transit routes in these cities. The combination of rental units with retail will help diversify the revenue stream and provide a hedge against the type of shock RioCan received over the past two years when the pandemic forced lockdowns and retail stores closed.

RioCan slashed its distribution by a third during the pandemic. This upset long-term holders of the trust units who relied on the generous payout for income. Now that revenue has stabilized and the worst of the pandemic appears to be over, RioCan has begun to increase the distribution. The current payout is \$0.085 per month. That's up from \$0.08 but still well off the pre-pandemic level of \$0.12.

The unit price has staged a nice recovery from the 2020 crash and is up more than 20% in the past year. Rate hikes will be a headwind, but the fact that RioCan is increasing the payout should provide support for the trust units. RioCan has a strong balance sheet, and its retail locations remain in high demand.

At the time of writing, the trust units offer a 4% yield.

Canadian Apartment Properties REIT

Canadian Apartment Properties REIT ([TSX:CAR.UN](#)) owns or has an interest in about 70,000 residential rental units in Canada, the Netherlands, and Ireland.

Demand for apartments is expected to expand in Canada in the coming years. House and condo prices have soared, and rising mortgage costs will make it even harder for people to buy. This should ensure CAPREIT can easily fill vacancies and charge higher prices for apartments when new renters move into the buildings.

The value of the trust units has fallen steadily in the past six months from \$62 to the current unit price near \$51.50. The drop is likely due to investor concerns about rising borrowing costs. Real estate companies use debt to acquire properties. CAPREIT finished 2021 with 99% of its mortgage portfolio at an average rate of 2.5%.

As the cost of renewing the debt rises, the amount of cash that is available for payouts to investors might shrink if revenue can't increase at the same rate. Rules limit the size of the allowable annual rent increase the company can implement on existing renters, so there is a cap on how much added revenue the company can get each year without buying or building new properties.

The pace of the rise in property values in recent years could slow down, as borrowing costs increase and margins get squeezed. CAPREIT saw the market value of its portfolio increase by \$1 billion in 2021. Investors will have to keep an eye on the report for full year 2022 to see if the surge has peaked. Bargain hunters might think CAPREIT is now [undervalued](#), but more downside could be on the way in the near term.

At the time of writing, the distribution provides a 2.8% yield.

Is RioCan or CAPREIT a better REIT to buy today?

CAPREIT might come under additional pressure in the next few months, as the Bank of Canada increases interest rates and bond yields continue to drift higher. RioCan is probably the safer pick of the two right now. The retail segment should perform well in the next few years, and RioCan's mixed-use properties provide a more balanced revenue stream. The yield is also attractive today, and investors could see the distribution slowly drift higher.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:CAR.UN (Canadian Apartment Properties Real Estate Investment Trust)
2. TSX:REI.UN (RioCan Real Estate Investment Trust)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise

7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. aswalker
2. kduncombe

Category

1. Investing

Date

2025/08/24

Date Created

2022/04/13

Author

aswalker

default watermark

default watermark