Does Canada’s Largest REIT Belong in Your Portfolio?

Description

Real estate is a time-tested method of building wealth. However, everyone doesn’t have the skill set nor upfront capital to acquire multiple properties and build a diverse real estate portfolio. Fortunately, every investor can obtain exposure to this industry with real estate investment trusts, better known as REITs. By acquiring shares in REITs, investors can sit and watch the returns compound, while real estate professionals manage the properties.

The largest player of the real estate industry in Canada is **RioCan Real Estate Investment Trust** (TSX:REI.UN). Should investors be hitching their wagons to the biggest player of a proven method for building wealth?

Here’s a quick look at the company.

Company overview

The company owns and operates over 300 shopping centres throughout North America and has large retailers such as **Wal-Mart, Loblaw,** and **Canadian Tire** occupying those centres; no tenant accounts for more than 4.8% of its revenue. Therefore, RioCan’s numerous quality tenants across North America offer an unusual amount of diversification within one stock.

Not only has RioCan established its position as the largest REIT in Canada, but the company has been able to demonstrate its ability to overcome financial struggles. The company has only increased its dividend since the 2008 Financial Crisis and has done a great job re-leasing its properties when **Target Corp.** left Canada. Therefore, investors can take comfort in knowing the company can weather potential issues that may arise.

The dividend

One of the most attractive features of investing in RioCan is its dividend yield. The company has maintained a dividend payout of $1.41 per share since 2013, which translates into a yield of 5.4%. With an occupancy rate of 95.6%, investors can expect RioCan to continue to generate sufficient cash flow in order to maintain its dividend.

The valuation

Based on current levels, investors will have to slightly overpay to acquire RioCan. The company is trading at a price-to-earnings ratio of 12.7 and a price-to-cash flow ratio of 18.6. Both are above the company's five-year average of 11.7 and 16.7, respectively. Therefore, investors may want to wait for a cheaper valuation before acquiring shares in the company.

The risks

The greatest threat RioCan faces is the decline of retail shopping. The rise of e-commerce is a serious threat to brick-and-mortar retailers, which could impact RioCan's earnings and occupancy rates. However, I believe the company's tenants won't be leaving its buildings anytime soon. The impact of e-commerce will hurt its tenants well before it impacts RioCan's earnings, and its tenants will continue to pay rent for the foreseeable future.

Foolish bottom line

I believe RioCan is a great company, but there are far better opportunities elsewhere among REITs in Canada. Investors should be looking to real estate sectors such as residential and industrial, as I believe the long-term prospects of both sectors are much better than retail.

Fool on!

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