2 High-Yielding REITs to Buy Now for Your TSFA

Description

One of the most important and obvious factors to consider when buying a REIT is how much it yields. If the REIT is yielding between 2% and 3%, there is no point investing in it. This is because you can buy a GIC and earn similar returns without any risk at all. However, if it's paying around 5% or more, it's certainly worth a look.

Safety of your investment is, of course, another important factor to consider. You want to make sure the company you invest in is financially strong. This will enable it to maintain its dividend. The following companies provide relatively high dividend yields along with safety of investment.

RioCan REIT

RioCan (TSX:REI.UN) is one of Canada's largest REITs, with a market capitalization of approximately $8 billion. The company's portfolio comprises 230 properties, with a total net leasable area of approximately 39 million square feet.

The company owns, manages, and develops retail-focused properties located in prime and high-density locations across Canada. RioCan's property portfolio includes grocery-anchored, urban retail, mixed-use and non-grocery-anchored centres.

Dealing with the e-commerce effect

Management is implementing a strategy to combat the e-commerce effect that has negatively impacted retail REITs over the past few years. One of the components of the strategy is to transition its tenant mix to those retail areas that are less impacted by the e-commerce trend.

The areas include personal services, food and restaurants, value retailing, and lifestyle and fitness offerings. Currently, 73% of the company's rent comes from these necessity-based and service-oriented tenants.

Another component of the strategy is to shift part of its portfolio to residential properties from retail properties. In March 2018, RioCan announced its residential brand, RioCan LivingTM: its entry into the residential market. Currently, 2,100 residential units are under construction with an additional 2,200 residential units to begin by 2021.

Strengthening the quality of the portfolio

RioCan is committed to improving the quality of its portfolio. Management is concentrating on properties within fast-growing, highly populated and high-income areas, while divesting properties in secondary markets. In 2018, the company divested about $1 billion of secondary market properties.

In 2019, management expects that 90% of the company's revenue will be generated from Canada's six-largest markets, while 50% of revenue will be generated from the GTA.

Solid financial performance

For the year ended December 31, 2018, FFO per unit was $1.85, up 3.3% from 2017. The company is moderately leveraged, with debt to total assets at about 42%, at June 30, 2019. In addition, RioCan maintains an investment-grade credit rating.

RioCan pays a very attractive dividend. The dividend currently has a forward yield of 5.5%. In addition, over the company's 25-year history, it has returned 15.7% to investors compared with 8.2% for the S&P/TSX index.

H&R REIT

H&R (TSX:HR.UN) is also one of Canada's largest REITs, with a market capitalization of approximately $6.5 billion. The company's portfolio comprises around 465 properties, with a total net leasable area of approximately 43 million square feet.

Diversified portfolio of properties types

Management has implemented a diversification strategy to minimize risk. The company invests in four different real estate asset classes. They comprise office (49%), retail (31%), residential (13%), and industrial (7%). Properties are also geographically diversified across Canada (67%) and the United States (33%).

Predictable and stable income

H&R owns a long list of creditworthy tenants such as Bell Canada and Hess Corporation. These tenants are locked into long-term leases, with contractual rent escalations. The average remaining lease term is 9.8 years — one of the longest in the industry. This, along with high occupancy rates, provides predictable and stable income.

Improving the quality of the portfolio

H&R is pursuing a capital-reallocation program. In 2018, the company sold about $1 billion of lower-growth assets, including all of its U.S. retail portfolio. At the same time, investments were made into development projects and its U.S. residential rental portfolio. This has significantly improved the growth profile of the company.

High investor return

H&R provides a very appealing dividend. It currently has forward yield of just over 6%. Moreover, the average annual return for investors has been 13% since its inception in 1997. The company is moderately leveraged, with debt to total assets at around 45% at March 31, 2019. In addition, H&R maintains an investment-grade rating.

Final thoughts

RioCan and H&R both boast attractive dividend yields and solid long-term returns, which make them ideal for the TSFA investor. In addition, both companies offer safety of investment by maintaining solid business strategies and moderate leverage. Now is a good time to consider investing in them.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:HR.UN (H&R Real Estate Investment Trust)
2. TSX:REI.UN (RioCan Real Estate Investment Trust)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Date
2025/08/28
Date Created
2019/08/08
Author
rlichtenstein