RIA Advice

The stocks of retail REITs have struggled lately. Malls and shopping centers are under pressure from Amazon and online shopping. But not all retailers are under extreme pressure. Home Depot, TJX Companies, Kroger, WalMart, Whole Foods (now an Amazon subsidiary), Best Buy, CVS, and Walgreen?s are financially healthy big tenants of many shopping center REITs. And that means the landlords that rent to stores that can withstand pressure from Amazon are worth a look.

Company	Ticker	3-Yr Annualized Return (as of Oct. 5), %
Realty Income Corp.	O	10.94
Regency Centers Corp.	REG	2.89
National Retail Properties	NNN	10.35

We?ve listed the 7 largest shopping center REITs by market capitalization, showing their dividend yields and Price/FFO. As a reminder FFO (funds from operations) is net income adjusted for property sales and depreciation. It?s not a perfect measure of cash flow since stripping out all depreciation can?t be accurate. Some long term capital expenditures are required to maintain property. But adjustments to FFO aren?t uniform, while FFO is. So it allows for the comparison of companies. It?s also useful in judging the safety of dividends.

Company	Ticker	Market Cap. ($ in billions)	FFO/share ttm	Price/FFO	Dividend/share	FFO/Dividend	Dividend Yield %
Realty Income Corp.	O	16.62	2.96	19.47	2.65	1.12	4.68
Regency Centers Corp.	REG	10.69	3.74	17.11	2.22	1.68	3.52
National Retail Properties	NNN	6.9	2.63	16.94	2.00	1.32	4.57
Kimco Realty Corp.	KIM	6.69	1.55	10.35	1.12	1.38	7.12
STORE Capital	STOR	5.67	1.6	17.48	1.32	1.21	4.82
Brixmor Property Group, Inc.	BRX	4.83	2.06	7.88	1.10	1.87	6.85
Weingarten Realty Investors	WRI	3.63	2.43	11.81	1.58	1.54	5.57
Average				14.43			5.30

The top-7 shopping mall REITs are averaging a Price/FFO ratio of 14.43 and a dividend yield of 5.3%. That?s a reasonable P/FFO ratio for healthy businesses and a decent yield since the 10-year US Treasury is 2 percentage points behind. The companies with higher valuations and lower dividend yields tend to have better property. Regency, for example, has more property than the others in California. KIMCO and Brixmor, by contrast, have a higher percentage of Midwest property, where the economy struggles, and Southeast property vulnerable to hurricanes. All of the companies appear financially healthy, and aren?t struggling to pay interest on mortgages or dividends. Most of them are also growing net operating income (NOI). That means, though vulnerable to further encroachments from Amazon, this would be a reasonable basket of stocks to own as a small part of a dividend portfolio. Brixmor and KIMCO, especially, could be attractive holdings at their current prices, despite being heavy in Midwest and Southeast property.• In addition to attractive dividend yields covered by cash flow and healthy balance sheets for both companies, a•recent Morningstar report indicates that KIMCO has revamped its portfolio since 2010, shedding over 400 assets for $6 billion over that time. Additionally, Weingarten Realty, though with a lower dividend yield than Brixmor and KIMCO, has 56 of its 190 properties in fast-growing Texas. More than half the landlord's property is in Texas, Florida, California, and Arizona. Gunning for the biggest dividend yield is usually a recipe for disaster, but, currently among beaten up shopping mall REITs, it may be a reasonable course.

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