



Need Income Now? Check Out These 2 REITs

Description

It isn't exactly the best of times for investors looking for dependable income.

Sure, all the usual suspects exist, but they're all paying pretty anemic yields. The five-year Government of Canada bond pays less than 0.75% annually. Corporate bonds aren't much better, coming at less than 3% for high-quality issues. GICs are equally pathetic, but at least they offer a guarantee of principal.

For most investors, those options just won't do. So, we're left with one choice—to venture into the world of stocks. Specifically, many investors are looking more and more to REITs, which offer yields often in excess of 5%, along with returns that are typically less volatile than the rest of the market. Sure, interest rate risk exists, but it doesn't look like rates will start creeping up anytime soon.

There are dozens of different REITs out there paying dividends from 3% all the way up to double digits. Here are a couple I think offer a good trade-off between plenty of current income now and safety in the future.

Calloway

Typical investment advice says you should avoid a company that depends on one customer for a big chunk of its revenue. Most of the time I agree with that, but not when you have the opportunity to hitch your wagon to the biggest retailer in the world.

Calloway Real Estate Investment Trust (TSX:CWT.UN) is one of Canada's largest owners of retail space, with 128 locations, more than 27 million square feet in space, and an additional 2.7 million square feet in development. **Wal-Mart** is its largest tenant, accounting for about 25% of the total leasable area, anchoring more than half of the company's property.

Sure, there are risks in having so much exposure to Wal-Mart, but they pale in comparison to the rewards. Because Wal-Mart stores attract so much foot traffic, that makes the rest of the development that much more attractive. Obviously it's working, since Calloway sports a current occupancy rate of 99%— among the best in the sector.

Calloway also trades at a reasonable valuation. It earned \$1.945 per share in funds from operations in 2014, putting it at 15.4 times FFO. The company paid out approximately 80% of its earnings as dividends, which is a comfortable ratio. There's little risk of this 5.3% yield getting cut anytime soon.

H&R REIT

While Calloway focuses on its bread and butter, **H&R Real Estate Investment Trust** ([TSX:HR.UN](#)) is a much more diversified entity. It owns a total of 55 million square feet worth of space, divided between 202 properties in Canada, and a one-third interest in 186 properties in the U.S. About 41% of the portfolio is Canadian office space, 27% is Canadian retail, and 10% is Canadian industrial.

2014 was a good year for the trust. Funds from operations came in at \$1.88 per share, which was an improvement of six cents per share compared to 2013. That puts the company at a reasonable valuation of just 12.6 times FFO. It also brought its total debt-to-assets ratio down to just over 46% compared to 49% in 2013.

The payout ratio is also solid. The company pays a monthly dividend of 11.25 cents per share, which works out to about 70% of its FFO. It last raised its dividend early in 2013, meaning investors are probably due for a small increase in 2015. Shares currently offer investors a yield of 5.7%.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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

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