



## Rental Income: Buy Zones for Quality REITs

### Description

With the dramatic dips that have been happening in the market in the last week, investors might be at a loss on when they should buy shares. Now, let's think about why you would own shares in real estate investment trusts (REITs) in the first place.

They are an integral part of my dividend portfolio. Particularly, they are hard assets that generate rental income, but I don't have to manage the properties or tenants. Instead, each REIT has a professional management team to do that for me.

Some REITs pay exceptionally high yields. However, the following REITs pay a decent yield of 3-4% to start, but have high-growth forecasts and are of high quality.

I understand well that the market goes up and down. So, if I'm able to buy these units at relatively high yields, then I just need to focus on buying and let the monthly rental income roll in.

The question is, what price (or what yield) is a good entry point for these REITs?

### Setting buy zones

**Canadian REIT** (TSX:REF.UN) is a high-quality diversified REIT that owns and manages retail, office, and industrial properties. It's known for its conservative business model of buying high-quality properties and maintaining a low payout ratio, which is around 60% currently.

From its 52-week high of \$50, it has steadily declined to under \$41 per unit. This 18% decline has offered an opportunity for investors to own shares of Canadian REIT at a yield of 4.4%. The REIT is likely to continue increasing its distribution going forward, just like it has done for 13 years in a row. The current yield of 4.4% and higher is a good time to buy Canadian REIT.

**Boardwalk REIT** ([TSX:BEI.UN](#)) is back to fair value. It has declined from a 52-week high of \$71 to under \$52, or close to a drop of 27%. Historically, Boardwalk REIT normally trades at a price-to-funds-from-operations ratio of 16.3. Presently, it's trading around a multiple of 15, which would be considered fair-value territory. The 3.9% yield or higher is a good time to buy Boardwalk REIT for residential rental

income.

**Allied Properties Real Estate Investment** ([TSX:AP.UN](#)) is a high-growth office REIT. From its 52-week high of \$41, it has declined to \$35, close to 15%. It is considered fairly valued from \$33 to \$35, implying a yield of 4.2-4.4% for starters.

### **Tax on the income**

REITs pay out distributions that are unlike dividends. Distributions can consist of other income, capital gains, foreign non-business income, and return of capital. Other income and foreign non-business income are taxed at your marginal tax rate, while capital gains are taxed at half your marginal tax rate.

So, to avoid any headaches when reporting taxes, buy and hold REIT units in a TFSA or an RRSP. However, the return of capital portion of the distribution is tax deferred. So, it may be worth the hassle to hold REITs with a high return of capital in a non-registered account.

Of course, each investor will need to look at their own situation. For instance, if you have room in your TFSA, it doesn't make sense to hold investments in a non-registered account to be exposed to taxation.

### **In conclusion**

These buy zones are good places to start buying into these quality REITs. However, the stock market is unpredictable, so investors should be mentally prepared to average into positions at lower prices. Since all three REITs are in different industries, there's little overlap if investors buy them all.

In conclusion, these REITs are great for long-term investors who want to receive high-quality rental income that grows every year.

### **CATEGORY**

1. Dividend Stocks
2. Investing

### **TICKERS GLOBAL**

1. TSX:AP.UN (Allied Properties Real Estate Investment Trust)
2. TSX:BEI.UN (Boardwalk Real Estate Investment Trust)

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