# Income Investors: Get 10% Yields From These 2 Beaten-Down REITs

## Description

Real estate investment trusts (REITs) are companies that own and manage properties and receive rent from their tenants. That makes it easy for investors to receive rental income.



In fact, investors can stay in the comfort of their homes and start receiving passive rental income from REITs. Here are two beaten-down REITs that generate yields of over 10%.

**Dream Office REIT** (TSX:D.UN) owns 24.1 million square feet of quality office properties in urban areas across Canada. Its properties can be found in 34 cities.

Roughly 71% of its net operating income is generated by central business district properties. In total, the REIT has about 2,200 tenants, and its top 20 tenants have an average credit rating of AA-.

Since 2003, Dream Office has maintained occupancy levels higher than 92%, and has always kept it higher than the national office average. Its payout ratio is roughly 94%. It yields an amazing 10.8% yield at under $21 per share after falling 25% from its high of $28.

**Northwest Healthcare Properties REIT** (TSX:NWH.UN) has a portfolio of 123 income-producing healthcare properties and eight million square feet of gross leasable area. Its properties can be found in Canada, Brazil, Australasia, and Germany, but the majority are in Canada (61%) and Brazil (24%).

After falling 20% from its high of $10, the REIT costs under $8 per share and attractively yields 10.1%. Although its payout ratio is 94.6%, its portfolio of hospitals, medical office buildings, and clinics are characterized by long-term, inflation-indexed leases and stable occupancies. Its occupancy levels are high at 94%.

At the end of July 2015 Northwest Healthcare has implemented a normal course-issuer bid program to purchase up to 10% of its public float, indicating the REIT’s shares are undervalued.

**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 buy 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 REITs provide an above average yield for any income investor. Their payout ratios are high, so it's essential they maintain a high level of occupancy to keep the distributions safe. At the same time, they could generate potential gains in the long term because they're undervalued.

**CATEGORY**

1. Dividend Stocks
2. Investing

**TICKERS GLOBAL**

1. TSX:D.UN (Dream Office Real Estate Investment Trust)
2. TSX:NWH.UN (NorthWest Healthcare Properties Real Estate Investment Trust)



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