Collect $1,000 in Monthly Rent From Cominar Real Estate Investment Trust

Description

Rental properties have always been popular investments for Canadians.

There are many reasons why. Depreciation allows the owner of a condo or house to defer a portion of the taxes until they sell. Real estate is generally less volatile than stocks. And real estate tends to spin off consistent income. All of those are things investors tend to like.

But perhaps the days of consistent returns from real estate are numbered. A combination of low interest rates and price appreciation have driven down the yield from rents for the average Canadian landlord. A decade ago, returns of 8-10% before taxes were common. These days, I know folks who own condos who aren't even collecting 3% a year in rental yield. They're not even making enough to pay the interest on the mortgage, never mind other expenses.

Low rental yields are a bigger risk than most landlords realize. When the average landlord is making most of their profit from price appreciation, they're quick to sell when prices start heading downwards. This turns a normal real estate correction into something much worse.

Perhaps there's a better way to invest in real estate. What if I told you there was a way you could get a great yield without having to worry about managing a property? There would be no toilets to fix, no tenants to screen, and no worries about putting all your eggs in one basket.

It's easy. All you need to do is buy a real estate investment trust.

Which REIT to choose?

Canada has dozens of different REITs ranging from giant coast-to-coast operators to companies with just a few dozen buildings. They have exposure to everything from shopping malls to trailer parks.

Some REITs have a little of everything, like **Cominar Real Estate Investment Trust** (TSX:CUF.UN), which is Quebec's largest landlord. Cominar also owns property in Ontario–mainly in the Toronto area–as well as Atlantic Canada and Alberta. Approximately 75% of its net operating income comes from Quebec.

Cominar owns more than 45 million square feet worth of leasable space, spread out over 564 different properties. Forty-three percent of its portfolio consists of office buildings, 37% is retail space, and 20% is classified as industrial or mixed use. It also has $52 million worth of development in the pipeline.

Cominar made a big acquisition back in 2014, acquiring more than $1.5 billion worth of shopping centres from Ivanhoe Cambridge, the real estate subsidiary of Quebec's pension plan. Instead of taking the cash and running, Ivanhoe elected to keep $250 million in Cominar shares, which is a big vote of confidence in the company.

Because of the acquisition, recent results have improved greatly compared with last year. Revenue was up more than 26% in the most recent quarter, as were funds from operations. Adjusted funds from operations rose even more, increasing by 28%. The company earned $0.39 per share in adjusted funds from operations, while paying out $0.368 per share to shareholders during the same period. That's a payout ratio of nearly 95%.

The elevated payout ratio and the debt taken on with the acquisition is likely the reason why this REIT has such an attractive yield. Cominar shares currently yield 9.2%, which kills the yield from any real estate investment I've seen in the last five years. Even if the company cuts the dividend a bit, an investment in Cominar still delivers excellent cash flow.

At $16 per share, it would take a position of 8,200 shares to generate just over $1,000 per month in dividends, which works out to an investment of just over $131,000 (excluding any commissions).

And remember, there are no operating expenses with an investment in Cominar. All you need to do is sit back, relax, and watch the dividends flow in. In my books, that sure beats an investment property.

CATEGORY

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