



Get Diversified Rent With 7-10% Yields

Description

Owning real estate investment trusts (REITs) is a great way to earn rental income passively without having to manage properties. Further, you can easily invest in commercial properties if you wish to.

Diversified REITs are a popular type of REIT that own and manage a mix of office, retail, and industrial properties, with retail and office properties typically being more stable.

Here are a couple of diversified REITs yielding between 7% and 10% for your consideration. Both are priced cheaply compared with their book values.

Cominar Real Estate Investment Trust

Cominar Real Estate Investment Trust (TSX:CUF.UN) is the largest commercial property owner and manager in the province of Quebec. Its diversified portfolio includes \$8.2 billion of assets that include 560 office, retail, and industrial properties across Quebec, Ontario, the Atlantic Provinces, and western Canada.

High distribution

At close to \$15 per unit, Cominar REIT offers a high 9.8% yield. At the end of September it maintained a high occupancy rate of 92% and its payout ratio is also pretty high at 92%.

So, there's little margin of safety for its high yield, though it doesn't look to be in danger immediately.

Valuation

Cominar REIT's book value is \$21.5 per unit. At \$15, the REIT is discounted by 30% from its book value.

Morguard REIT

At the end of September 30, 2015, **Morguard Real Estate Inv.** ([TSX:MRT.UN](#)) owned \$2.9 billion of assets. The REIT primarily owns retail properties (54%) and office properties (40%). Its portfolio has

gross leasable area of 8.8 million square feet.

Morguard REIT has a concentration of properties in Ontario (40%), Alberta (24%), and British Columbia (14%). However, the occupancy rates for its retail portfolio was 88% and office portfolio was 96%.

Safe distribution

It has maintained distributions since 2005. Along the way, it paid a special distribution of 17 cents per unit, and increased regular distributions by 6.7% in 2012.

With a portfolio occupancy rate of 92% and a payout ratio of 80% (based on adjusted funds from operations) at the end of the third quarter, the diversified REIT's 6.8% yield looks safe. However, it doesn't look like it'll be increased anytime soon, as 80% is at the high end of its historical payout-ratio range.

Valuation

Morguard REIT's book value is \$25.6 per share. At \$14.1, the REIT is discounted by almost 45% from its book value.

Tax on REIT income

If you're buying REIT units in a TFSA or RRSP, you do not need to worry about the rest of this section. However, if you want to learn about REIT's tax-advantaged nature, read on.

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.

On the other hand, the return of capital portion reduces your adjusted cost basis. This means that that portion is tax deferred until you sell your units or until your adjusted cost basis turns negative. So, if you buy REIT units in a non-registered account, you'll need to track the change in the adjusted cost basis. The T3 that you'll receive will help you figure out the new adjusted cost basis.

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 have investments in a non-registered account to be exposed to taxation.

In conclusion

Cominar REIT has a market cap of almost \$2.6 billion, while Morguard REIT has a market cap of almost \$867 million. Although Cominar REIT is a bigger REIT and has a higher yield, Morguard REIT's yield is safer with a lower payout ratio.

If you're looking for safe monthly income, choose Morguard REIT's 6.8% yield over Cominar REIT's 9.8% yield. If you need higher income immediately, you might consider taking the chance with Cominar REIT.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:MRT.UN (Morguard Real Estate Investment Trust)

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