



Get Safe Residential Rent With 5-9% Yields

Description

Owning real estate investment trusts (REITs) is a great way to earn rental income without having to scout for the best properties, manage them, and screen tenants.

Residential REITs are one of the most stable types of REITs because everyone needs a roof over their head, so there's a stable demand. If you're not buying, you're renting.

Here are a couple of residential REITs yielding between 5% and 9% for your consideration. Both are priced cheaply compared with their book values, particularly **Morguard North American Residential REIT** ([TSX:MRG.UN](#)).

Northview Apartment REIT

Northview Apartment REIT (TSX:NVU.UN) used to be called Northern Property REIT with the ticker symbol TSX:NPR.UN, until it acquired True North Apartment REIT this year.

After the acquisition Northview Apartment REIT is now Canada's third-largest publicly traded multi-family REIT with 24,000 residential suites across 60 markets in Canada. Anyone is welcome to become a part owner to bank on its 8.8% yield.

Safe distribution

The REIT has maintained distributions since 2002. Although it didn't increase distributions every year, it managed to raise it at a compound annual growth rate of 3% from 2002 to 2014. Additionally, its payout ratio reduced from 91% in 2002 to 70% today. A steadily increasing distribution and a reduction in payout ratio make its distribution safer.

Valuation

Northview Apartment's book value is \$25.5 per share. At \$18.5, the REIT is discounted by roughly 27% from its book value.

Morguard North American Residential REIT

Since its initial public offering in 2012, Morguard North American Residential REIT has doubled its portfolio size to over 13,000 suites across 45 multi-unit residential properties in North America.

Specifically, the REIT has about \$2 billion worth of assets. Its portfolio of properties include 31 low-rise and mid-rise apartment communities in the United States and 14 Canadian residential apartment communities in Alberta and Ontario.

Safe distribution

In the third quarter that ended on September 30, the residential REIT's adjusted funds-from-operations payout ratio was below 68%, reduced from 88% compared with the same period in 2014. Further, the REIT maintained a high occupancy rate of 95.7% (specifically, 99% in Canada and 94% in the United States). So, the REIT's 5.5% yield remains safe.

Valuation

Morguard North American Residential's book value is \$21.8 per share. At \$10.8, the REIT is discounted by 50% 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

If you're looking for consistent monthly rental income without having to do anything but buy REIT units as you would when buying shares of a stock, consider Morguard North American Residential REIT and Northview Apartment REIT, which yield 5.5% and 8.8%, respectively.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:MRG.UN (Morguard North American Residential Real Estate Investment Trust)

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