



I'm Buying These REITs With 10% Yields to Boost My Income

Description

Real estate investment trusts (REITs) own and manage real estate assets they collect rent from. Investors can easily buy units of REITs to earn a passive monthly income.

The following REITs in particular are priced attractively and yield 10% or higher. These REITs may not be core holdings, but they can serve well in a diversified portfolio to boost income.

Think about it: \$1,000 in one stock would give you \$100 in annual income; \$3,000 in one stock would give you \$300 in annual income; \$10,000 in one stock would give you \$1,000 in annual income.

Historically, 7-10% is the average market return, and now you can get this return from the income portion only, ignoring any capital gain potential from these investments.

Dream Industrial Real Estate Invest Trst ([TSX:DIR.UN](#)) owns \$1.7 billion industrial real estate assets of 17 million square feet of gross leasable area (GLA) across 220 properties in major markets of Canada.

Dream Industrial has come under pressure lately likely because of its 24% GLA exposure to Alberta. However, the reality is that only 3.3% of Dream Industrial's GLA are oil- and gas-related tenants, its Alberta portfolio has maintained a high occupancy rate of 97%, and it has limited direct exposure to western Canada's oil and gas industry. Less than 1% of total GLA expires in the next two years.

At \$6.56 per unit, Dream Industrial is priced at an attractive 8.3 times price to adjusted funds from operations (P/AFFO). Using another metric, it's priced at a discount of 40% from its book value.

Dream Industrial yields 10.7%, which is the highest it has been since its initial public offering in 2012. Based on its AFFO, its payout ratio is about 87.5%, so its yield is sustainable.

Northview Apartment REIT

Originally called Northern Property REIT, which traded with the ticker TSX:NPR.UN, **Northview Apartment REIT** (TSX:NVU.UN) is now trading at a dirt-cheap valuation of 7.9 times P/AFFO. This is

cheaper than it was in 2009 in the last recession.

After acquiring True North Apartment REIT and some multi-family real estate assets from Starlight Investments last year, Northview has become the third-largest multi-family REIT in Canada.

The biggest concern about Northview is its exposure to Alberta and other resource-based regions. Higher vacancy levels will continue as long as commodity prices remain weak. For example, in the third quarter that ended in September, Northview reported vacancy loss of 10%.

At \$16.36 per unit, Northview yields 10%. The REIT has increased its distribution eight times since 2002 and has never cut it. There's also a margin of safety for its distribution because of its conservative AFFO payout ratio of 78%. So, Northview should be able to maintain its 10% yield.

REIT investing tips

If you buy these REITs in a TFSA, you can get tax-free income. Remember to set a limit order with your desired buy price and to set the expiry date as far into the future as possible to increase the chances of filling your full order.

Additionally, 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.

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 changes in the adjusted cost basis. The T3 that you'll receive will help you figure out the new adjusted cost basis.

Conclusion

I hold Dream Industrial and Northview in my TFSA to earn tax-free income. To me, they are GICs that pay me a 10+% yield, but I know I'll be in for a roller coaster ride of price volatility. They're GICs to me because I view my REIT shares as non-redeemable for a long time while I collect juicy monthly income from them.

Their prices are likely to remain depressed as long as commodity prices stay low. However, at such cheap valuations and yielding 10% or higher, they could be good value and income investments. Cautious investors should wait for improvements in commodity prices before buying.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:DIR.UN (Dream Industrial REIT)

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