REITs: A High-Income Option for Retirees

Description

The low income generated by interest-producing vehicles may not be enough to sustain a retiree's lifestyle because of the low interest rate environment.

Some retirees have looked to the stock market for higher-yield options. For a diversified portfolio, real estate investment trusts (REITs) can make a big difference in boosting income because they pay out most of their cash flows.

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Get a 5.2% yield from this REIT ETF

If retirees feel more comfortable with exchange-traded funds (ETFs), ETFs such as **iShares S&P TSX Capped REIT Index Fund** (TSX:XRE) are available. This REIT ETF consists of 18 Canadian REITs. At about $16.20 per unit, it yields 5.2%.

For comparison with an investment in a rental property, if $300,000 were invested in the fund, retirees could generate $1,300 of monthly income.

Get almost $2,100 of monthly income

However, if retirees require a higher yield to maintain their lifestyles, they can select higher-yield REITs selectively.

From the REIT fund, these four REITs pay the highest yields: **Cominar Real Estate Investment Trust** (TSX:CUF.UN) yields 8.5%, **Dream Office Real Estate Investment Trst** (TSX:D.UN) yields 8%, **Artis Real Estate Investment Trust** (TSX:AX.UN) yields 8%, and **Dream Global REIT** (TSX:DRG.UN) yields 9%.

If retirees invest $300,000 evenly across these REITs (an investment of $75,000 in each), they can earn a monthly income of $2,093.75 at a yield of 8.375%.

Tax on the income

If you're buying REIT units in a TFSA or RRSP, you don't 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 of 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 the non-registered account to be exposed to taxation.

Conclusion

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REITs can be a part of a diversified portfolio to boost income. Their nature allows them to pay juicy yields; however, they generally experience slower growth, so investors should be aware of that.

If growth is a concern, retirees should limit exposure to high-yield investments (such as REITs) in their stock portfolio to, say, up to 20%, and allocate other resources in higher-growth areas such as technology and healthcare companies.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:AX.UN (Artis Real Estate Investment Trust)
2. TSX:D.UN (Dream Office Real Estate Investment Trust)
3. TSX:XRE (iShares S&P/TSX Capped REIT Index ETF)

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