Do You Want High Tax-Free Income?

Description

If you want more income, one of the first places you can explore is real estate investment trusts (REITs). They own portfolios of properties that are diversified geographically and across many tenants. Some are diversified across asset types as well.

Most importantly, many REITs pay juicy distributions that can help you pay your bills.

Here are a couple of ideas.

NorthWest Health Prop Real Est Inv Trust (TSX:NWH.UN) owns 120 healthcare properties with an asset mix of 61% in medical office buildings and 39% in hospitals.

It earns 50% of its net operating income (NOI) from Canada, 23% from Brazil, 19% from Australasia, and 8% from Germany.

The REIT was priced at a huge discount before. So, it's been buying back 10% of its units since last summer. And now it has risen 25% from a year ago.

NorthWest's net asset value (NAV) is about $10.60 per unit. So, at $10.03 per unit, the REIT is fairly valued. Investors shouldn't expect huge upside in the next year.

That said, it offers an 8% yield that's supported by a payout ratio of 92%. This year, NorthWest aims for a payout ratio of about 85% and an NAV of roughly $11 per unit.

By buying $10,000 worth of units today, investors can expect to earn an annual income of about $800.

Northview Apartment REIT (TSX:NVU.UN) is a residential REIT with a portfolio of more than 24,000 multi-family units in 60 markets across Canada. It also has 1.2 million square feet of commercial real estate.

The units traded below $16 per unit in January primarily because of its exposure to resource-based regions, which contribute 22% of its NOI, of which 17% is from Alberta and 5% is from northeastern

British Columbia.

Since January, Northview units have recovered nicely by rising 40%. That said, it’s still selling at a discount to its NAV and offers a 7.3% yield that’s supported by an annual payout ratio of about 70%.

In the first quarter, Northview’s payout ratio was 82.6%, in line with management’s expectations. As stated in the first-quarter report, “Northview’s FFO payout ratio is historically higher in the first quarter of the year as a result of higher operating expenses, particularly utilities, in the winter months.”

Northview’s payout ratio is conservative, so it can maintain its monthly distributions. In fact, the REIT has increased its distribution eight times in 13 years, while reducing its payout ratio.

By buying $10,000 worth of units today, investors can expect to earn an annual income of about $730.

Tax on distributions

REITs pay out distributions that are like dividends but are taxed differently from dividends. If you wish to avoid the different tax-reporting hassle, buy REITs in TFSAs to earn tax-free monthly income.

Investors may also be interested to know that in non-registered accounts, the return of capital portion of REIT distributions is tax deferred until unitholders sell or adjusted cost basis turns negative.

Conclusion

You can add REITs as a part of your diversified portfolio to boost your income. Holding REITs in a Tax-Free Savings Account allows you to earn tax-free monthly income.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

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