3 Hidden Gems for High Income in Your RRSP

Description

A Registered Retirement Savings Plan (RRSP) is a great place to build a nest egg for your retirement. Some people use it to earn interest from savings accounts or guaranteed investment certificates (GICs). However, the low interest rate environment might result in income generation that's less than ideal.

If you want higher income, there are three under-the-radar real estate investment trusts (REITs) that you can explore.

Slate Office REIT (TSX:SOT.UN) is a Canadian office REIT that owned 34 property assets totaling 4.4 million square feet at the end of the first quarter.

It invests in "non-trophy" assets that are overlooked by big commercial real estate companies. These assets make up about two-thirds of the Canadian office space inventory, are typically priced at a discount, and have rent-increase potential.

For example, in May 2015 Slate Office acquired the **Fortis** portfolio of 14 properties (totaling 2.8 million square feet) in Atlantic Canada at a 65% discount from replacement cost and has about $10-12 of upward pressure on rents.

At $7.61 per unit, Slate Office yields 9.8%. It pays a monthly distribution of 6.25 cents, totaling an annual payout of $0.75 per unit. An investment of $1,000 will generate an annual income of about $98.

Slate Office's first-quarter payout ratio was 90.3%, which improved from 2015's first-quarter payout ratio of 112.4%.

Management's interests are aligned with unitholders' as it owns about 20% of Slate Office.

Slate Retail REIT (TSX:SRT.UN) has a U.S. retail portfolio that's 100% grocery-anchored, which helps it maintain a high occupancy. At the end of the first quarter, Slate Retail had 66 properties across 20 states, totaling 7.7 million square feet.

It focuses on overlooked secondary markets in metropolitan statistical areas with populations of at least one million. These markets provide growth opportunities for Slate Retail from below-market rents, limited new grocery store supply, and redevelopment opportunities.

At $13.67 per unit, Slate Retail yields 7.4%. It pays a monthly distribution of US6.49 cents, totaling an annual payout of $0.77 per unit. An investment of $1,000 will generate an annual income of about $74.

Slate Retail's payout ratio is about 66%, which is below the U.S. industry average of 70.8%.

American Hotel Income Properties REIT LP (TSX:HOT.UN) has 80 hotel properties across 27 states in the U.S.

It has 45 hotels in 22 states, which primarily serve the freight-rail industry. Specifically, the REIT has long-term relationships of over 25 years with **Union Pacific**, BNSF, and **CSX** that secure more than 40% of its revenues.

In its branded portfolio, it has 35 hotels with five franchise partners, including **Hilton** and **Marriott**.

While its funds from operations per unit have been growing since 2013, the REIT's unit price hasn't moved much. American Hotel offers a yield of 8% at $10.54 per unit.

American Hotel's first-quarter payout ratio was 93.5%, which improved from 2015's first-quarter payout ratio of 125%.

An investment of $1,000 will generate an annual income of about $80.

Conclusion

Since Slate Retail and American Hotel pay U.S. dollar–denominated distributions, their yields will fluctuate with the foreign exchange between the U.S. dollar and the loonie.

Interested investors should hold them in an RRSP to avoid any withholding taxes on their distributions.

A $3,000 investment divided equally among these REITs will generate an annual income of $252 with an average yield of 8.4%.

Although these REITs yield much higher than GICs, they're very different investments in that you own a piece of the company if you buy their units, so you're taking on their underlying risks as well.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:HOT.UN (American Hotel Income Properties REIT LP)
2. TSX:RPR.UN (Ravelin Properties REIT)
3. TSX:SGR.UN (Slate Retail REIT)

Category

1. Dividend Stocks
2. Investing

Tags

1. Editor's Choice

Date
2025/08/25
Date Created
2016/07/04
Author
kayng