



Can These 3 REITs Maintain Their Generous Payouts?

Description

In a world where high yields are scarce, investors must make a decision. They can either take on more risk and (hopefully) get greater income. Or they can go the safe route and stick with lower dividends, exchanging a little less yield in exchange for being able to sleep a little better at night.

REITs are a perfect example of this issue. Some of Canada's largest REITs have payouts under 5% as investors seek what they deem to be secure yield. Others yield 7-8%—or even more—giving investors extra income in exchange for a some additional risk. No matter what your strategy, there's likely more than one REIT that can help you get there.

I'd like to focus on some of Canada's top higher-yielding REITs for this article, taking a closer look at whether or not they can maintain their generous dividends.

Cominar

Cominar Real Estate Investment Trust (TSX:CUF.UN) is one of Canada's largest REITs with a portfolio of 537 office, retail, and industrial buildings, spanning nearly 45 million square feet across Quebec, Ontario, the Atlantic Provinces, and a little in western Canada. Most of its portfolio is located in Quebec; it is the province's largest landowner.

While Cominar does have an attractive yield of 8.1%, I'm not sold on the security of the payout. In the company's first quarter, it paid out \$0.3675 per share in distributions to shareholders. The problem is it only earned \$0.35 per share from adjusted funds from operations—a key financial metric for REITs. That's a payout ratio of 105%, which is not sustainable over the long term.

The company was hurt when **Target** abruptly left Canada in early 2015 and hasn't really recovered. The good news is it reported an uptick in occupancy—from 91.9% to 92.5%—in its most recent quarter, and it eliminated its dividend-reinvestment plan, which should help future dividends be more sustainable by not diluting shares.

Cominar's dividend should be okay, but at the same time there are plenty of reasons to be concerned.

Dream Global

Dream Global REIT (TSX:DRG.UN) is a somewhat unique Canadian REIT. It owns office buildings exclusively in Europe, mostly in Germany but also a bit in Austria. Dream owns 203 properties spanning some 13.5 million square feet in gross leasable area. Its largest tenant is Deutsche Post, which accounts for approximately 22% of total rents.

Dream Global is on pace to generate approximately \$0.80 per share in adjusted funds from operations in 2016 while paying out approximately \$0.80 per share in distributions. You don't have to be a math whiz to see that's not an ideal payout ratio.

If Dream can continue to pass through rent increases to tenants, its 8.8% dividend should be okay. Still, it's not the most secure payout out there.

Northview

I've saved the best for last. **Northview Apartment REIT** (TSX:NVU.UN) gives investors a nice yield combined with a very reasonable payout ratio.

Northview is Canada's third-largest owner of multi-family housing—primarily apartment buildings. It also owns some commercial real estate, including extended-stay hotels. In total it has more than 24,000 units across +60 markets across Canada. The company diversified away from resource-rich areas of the country with a couple of big recent acquisitions.

According to a recent investor presentation, Northview's 7.2% dividend is much more secure than the other two REITs profiled. It has a payout ratio of approximately 70% of 2016's projected adjusted funds from operations—a very attractive ratio to income investors.

In fact, the company has a similar payout ratio to peers like **Canadian Apartment Properties REIT** and **Killam Apartment REIT**, yet it yields 91% and 59% higher than its two peers, respectively.

Get secure yield

I'm not predicting Dream Global or Cominar will cut their dividends. But if I were looking for income today, I'd feel a lot better owning Northview Apartment REIT over either of those two companies.

CATEGORY

1. Dividend Stocks
2. Investing

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