Income Investors: Collect $1,000 Per Month From These 3 REITs

Description

I think we'd all like to have a truly passive real estate empire that spins off a significant amount of cash flow each month.

Many people try to do this by owning physical real estate. Sure, values in many of Canada's major markets continue to do well, but owning a condo or a house comes with significant risks.

Cap rates are anemic, meaning investors are forced to count on capital gains for decent returns. Owning only one property comes with concentration risk. And ask any landlord: dealing with tenants and their myriad of problems is hardly the definition of passive income.

Investors who want truly passive income should focus on Canada's top real estate investment trusts. A portfolio of REITs involves no work with the added benefit of professional management, scale, and true diversification.

Here are three REITs to get you started.

Slate Retail

Slate Retail REIT (TSX:SRT.UN) continues to be one of my favourite retail REITs, and not just because it pays a dividend of 7.1% while peers tend to be in the 4-6% range.

Slate owns grocery store–anchored property in so-called secondary markets–places like Atlanta, Charlotte, and Richmond, where returns are a little more attractive than bigger centres. The portfolio consists of 66 different properties with more than 7.7 million square feet of gross leasable space. Occupancy stands at 94%.

According to management projections for 2016, Slate is projected to earn $1.37 per share in adjusted funds from operations once converted to Canadian currency. Once its US$0.065 per share monthly dividend gets converted back to our local currency, it comes out to less than $1 per share annually. This gives the company a payout ratio of approximately 70%. That's one of the lowest payout ratios in the sector.

H&R

H&R Real Estate Investment Trust (TSX:HR.UN) is one of Canada's largest and most diverse REITs. The company owns 40 office properties, 159 retail properties, and 104 industrial locations in Canada. It also has a 33.6% interest in ECHO Realty LP, which owns 207 properties in the United States. Altogether, the portfolio is almost 50 million square feet.

The company is expanding aggressively into the residential market with some 2,500 apartments in Texas and Florida. It also has a 50% interest in a development in New York that will consist of some 1,870 apartments and 15,000 square feet of retail space when completed in 2017.

In the company's most recent quarter, it earned $0.50 per share in funds from operations while paying out $0.34 in dividends. That's a payout ratio of 68%. That ratio combined with a 5.8% yield makes H&R attractive to income investors.

Dream Industrial

Dream Industrial Real Estate Investment Trust (TSX:DIR.UN) is Canada's largest pure-play owner of industrial real estate. Its portfolio is some 17 million square feet of space stretched over five provinces.

Although Calgary is the company's largest market, it is handling the downturn in the local economy well. Occupancy in Alberta is still above 97%, which is higher than most other markets. Additionally, the company has just 7% of its leases maturing in 2016 after making the effort to sign up tenants for long-term contracts.

In 2015 the company earned $0.82 per share in adjusted funds from operations while paying investors a dividend of $0.70. That's a payout ratio of 85%, which is certainly acceptable for a company that yields 7.8%, and 2016 numbers look to be pretty similar.

Earn $1,000 per month

Earning $1,000 per month from these REITs isn't terribly difficult. It would take investments of

- 3,917 shares of Slate Retail REIT, worth $56,522;
- 2,960 shares of H&R REIT, worth $69,145; and
- 5,711 shares of Dream Industrial REIT, worth $51,056.

Altogether, that would be an investment of $176,723, which is certainly cheaper than buying the average condo in a big Canadian city.

Perhaps that's a little out of your reach. No problem. An investment of $17,672 would generate dividends of $100 per month–enough to pay for a cell phone bill or some other monthly obligation.

Canada's top REITs offer truly passive income, nice yields, and the potential for capital gains. They're a much better choice than physical property.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:DIR.UN (Dream Industrial REIT)
2. TSX:HR.UN (H&R Real Estate Investment Trust)
3. TSX:SGR.UN (Slate Retail REIT)

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