

## 2 Top REITs to Buy for Passive Income

### Description

Investing in real estate investment trusts (REITs) is a great way to earn passive income.

REITs own or finance income-producing properties and pay out the majority of their taxable income to their shareholders, giving their stocks above-average yields. The safety of their yields is also very easy to confirm. All you need to do is make sure the company's funds from operations meet or exceed its distributions; or if it provides its payout ratio, make sure that it does not exceed 100%.

With all of this in mind, let's take a look at why **Milestone Apartments Real Estate Inv't Tr** (TSX:MST.UN) and **Plaza Retail REIT** ([TSX:PLZ.UN](#)) would be great fits for your portfolio.

#### Milestone Apartments REIT

Milestone is one of the United States' largest residential landlords. It owns and manages a portfolio of 72 multifamily garden-style apartment properties, comprising of 22,546 units located across 14 major metropolitan markets in nine states.

Milestone is very selective of the markets in which it operates. Its focus is on the high-growth U.S. Sunbelt markets, where there is strong renter demand, above-average population, and above-average employment growth. This ensures that it will maximize its occupancy, which is the key to strong and predictable cash flows.

Milestone has been growing at a rapid pace in recent years, and this trend has continued in 2016. Revenues increased 27.3% year over year to US\$135.37 million, its net operating income increased 31.7% year over year to US\$74.62 million, its adjusted funds from operations (AFFO) increased 27.9% year over year to US\$37.27 million, and its AFFO per diluted unit increased 6.5% year over year to US\$0.49 in the first half of the year.

Its very strong financial performance in the first half of the year was driven by three primary factors. First, it added 11 apartment properties totaling 2,314 units to its portfolio since the conclusion of the first half of 2015. Second, while growing its portfolio, it was able to keep its occupancy rate at a very high 95.2%. Third, its average rent rose 11.5% to \$933 per month.

Milestone's ample AFFO generation allows it to pay a monthly distribution of US\$0.04583 per unit, representing US\$0.55 per unit on an annualized basis, which gives its stock a yield of about 3.4% at today's levels. This yield is easily confirmed as safe when you consider that its AFFO totaled \$37.27 million and its distributions totaled just \$21.97 million in the first half of the year, resulting in a very conservative 58.9% payout ratio.

It's also worth noting that Milestone implemented a 10% distribution hike and a change to U.S. dollar-denominated distributions in January, putting it on pace for 2016 to mark the first year in which it has raised its annual rate since its initial public offering (IPO) in March 2013. I think its very strong

AFFO growth and its very conservative payout ratio has it well positioned to raise its distribution again in the very near future, so I consider Milestone both a high-yield and distribution-growth play.

## Plaza Retail REIT

Plaza is one of Canada's largest owners, developers, and managers of retail real estate, including strip plazas, standalone small-box retail outlets, and enclosed shopping centres. It has ownership interests in 300 properties totaling approximately 7.6 million square feet located across eight provinces.

The beauty of Plaza's business is that about 90.5% of its gross leasable area is occupied by high-quality national retailers, such as Shoppers Drug Mart, KFC, **Dollarama**, Sobeys, **Staples**, **Canadian Tire**, T.J. Maxx, and Rexall, giving it one of the best tenant bases in the industry.

Plaza has grown at a consistent rate over the last several years, and it has continued to deliver strong results in 2016. Its revenues are up 3.3% year over year to \$49.39 million, its net operating income is up 2.3% year over year to \$30.58 million, its AFFO is up 8.3% year over year to \$15.23 million, and its AFFO per unit is up 4.7% year over year to \$0.157 in the first half of the year.

Its strong performance in the first half of the year was driven by two primary factors. First, its net operating income grew as a result of its development and redevelopment activity, as well as a decrease in maintenance capital expenditures. Second, its total committed occupancy improved to 96.2% from 96.1%.

Plaza's strong AFFO generation allows it to pay a monthly distribution of \$0.02167 per unit, representing \$0.26 per unit on an annualized basis, and this gives its stock a high yield of about 5.2% at today's levels. This yield is also very safe when you consider that its AFFO totaled \$15.23 million and its distributions totaled just \$12.69 million in the first half of the year, resulting in a sound 83.3% payout ratio.

On top of having a high and safe yield, Plaza is one of the industry's top distribution-growth plays. It has raised its annual distribution every year since 2003, including a compound annual growth rate of 14% in that span, and this is the second-longest streak in the industry. Its consistent AFFO growth could allow its streak to continue for many years, making it one of the best stocks to buy for a growing income stream.

## Is one a better buy than the other?

I think both Milestone and Plaza are great long-term buys, but if I had to choose just one, I would go with Plaza because it has a much higher yield and a very strong track record of growing its rate.

## CATEGORY

1. Dividend Stocks
2. Investing

## TICKERS GLOBAL

1. TSX:PLZ.UN (Plaza Retail REIT)

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**Author**

jsolitro

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