RRSP Investors: The Compelling Reason to Own These 3 REITs

Description

Many investors overlook the tax implications of what type of security should go into each type of account.

A terrific example is your TFSA. You'd think that a TFSA would be an ideal place for almost any investment because of the tax treatment. And, for the most part, that's right. Except for one big exception, which is U.S.-listed dividend stocks. Those are subject to a 15% withholding tax that an investor doesn't get back.

Folks who receive U.S. dividends from a RRSP aren't subject to withholding taxes. Investors who hold U.S. dividend payers in a non-registered account will also see a withholding tax, but they get a corresponding tax credit to minimize the impact.

Real estate investment trusts (REITs) are another interesting tax case. Each year, a REIT's distribution will consist of several different categories that are really only interesting to accounting folk. Some of the payout could be return of capital, or capital gains, or investment income. Naturally, each of these has a different tax rate, making REITs a bit of a nightmare for accountants.

There's a much easier way. All investors need to do is ensure they own REITs inside their RRSPs. That way they can make sure every nickel of those succulent distributions ends up in their pockets.

Here are three great REITs to put in your RRSP today.

Smart

Smart REIT (TSX:SRU.UN) shares sold off after the U.S. election on fears that higher interest rates would cut into its bottom line. Shares have recovered a bit, but are still well below recent highs. This is a fantastic buying opportunity.

Remember, Smart's portfolio consisting mainly of **Wal-Mart**-anchored shopping centres continues todo well. Occupancy is still above 98%, and the balance sheet is quite conservative. Management isalso expanding into multi-use and residential real estate.

Smart pays a 5.3% dividend, a great yield in today's world. It has a payout ratio under 80% of adjusted funds from operations, and it has hiked the dividend three times in the last three years.

Dream Office

I aggressively bought **Dream Office Real Estate Investment Trst** (TSX:D.UN) shares approximately a year ago, right before the company cut its generous distribution. It's worked out well; my shares are up 35%.

I still think there's room to grow. In fact, I think management's $23.76 estimate of fair value is too low. The company is currently in the middle of an ambitious plan to sell $1.2 billion worth of real estate that management feels investors are discounting. These sales will also strengthen the company's balance sheet, which is a prudent move if interest rates head higher.

In the meantime, investors can collect a 7.5% yield that is well covered by earnings. The last thing Dream wants is to cut its distribution again.

Northview Apartments

Northview Apartment REIT (TSX:NVU.UN) is a bit of an odd duck. It owns more than 24,000 apartments with a focus on areas like Canada's northern territories and Atlantic provinces. These areas offer better cap rates versus cities like Toronto or Montreal.

Northview passes on these higher returns to investors in the form of very generous distributions with shares currently yielding 7.6%. Some of its competitors pay barely half of that.

Investors don't have to worry about the payout either. Northview's payout ratio is just over 80% of adjusted funds from operations, and that's after a tough 2016 impacted negatively by the Fort McMurray wildfires. This ratio should creep down in 2017.

The bottom line

REITs are a great income source to have in any account. There aren't many stocks paying +7% dividends in today's world.

But if you really want to maximize your income, stick with holding REITs in your RRSP. Your wallet (and accountant!) will thank you.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:D.UN (Dream Office Real Estate Investment Trust)
2. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)

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