Attention Income Investors: These 3 Top REITs Yield up to 9.2%

Description

Just about every income investor would like a raise. Who doesn't like more money?

There's just one problem: if you don't choose a company with a sustainable yield, chasing dividends is a sucker's game. Getting paid 9% annually is great. When the company can't support the yield and it gets slashed to a 6% payout — taking the share price down with it — it's not good.

Many investors have put significant assets to work inside Canada's real estate investment trust (REIT) sector, anxious to collect the attractive yields offered. Most of Canada's largest REITs offer payouts in the 5-6% range. But there are a select few REITs that offer payouts of 7%, 8%, or even above 9%, while still maintaining a reasonable payout ratio.

Here are three of Canada's top-yielding REITs, each with a sustainable payout.

Slate Office REIT

Slate Office REIT (TSX:SOT.UN) has caught the eye of many investors because of its succulent yield. Shares currently pay 6.25 cents per month — good enough for a 9.2% yield. You won't find many better yields than that today.

Slate Office intentionally looks at the office market a little different than most other REITs. It focuses on so-called B markets, choosing to put its capital to work in places like Moncton and Markham rather than Toronto or Montreal. This allows it to buy assets at less than replacement costs and get cap rates of 7% or 8%, which is very attractive in today's market.

Slate's portfolio got a big boost in 2015 when it spent $430 million to buy **Fortis's** Atlantic Canada-based office properties. These days, the company owns five million square feet of space spread out over 35 different properties.

In 2016, the company delivered $0.86 per unit in adjusted funds from operations (AFFO). Not only does that give the company an extremely low price-to-AFFO ratio, but it also ensures Slate can easily afford the 9.2% yield. The current payout ratio is 87%, which is reasonable for a REIT.

American Hotel Income

American Hotel Income Properties REIT LP (TSX:HOT.UN) is primarily a niche player. It owns hotels near rail facilities, which ensures a steady stream of tired rail workers. It has also expanded in recent years by picking up hotels near other transportation hubs, like airports. In total, the company owns nearly 9,400 rooms spread out over 95 different properties.

The hotel business is incredibly fragmented with thousands of operators in the United States owning just a location or two. The growth strategy of acquiring these properties has certainly worked so far; in 2013, revenue was just over US$48 million. In 2016, the top line was US$173 million.

Shares currently pay investors a 5.4 cent monthly dividend — good enough for an 8.1% yield. In 2016, the company generated $0.80 in AFFO, giving the stock a payout ratio of just over 80%.

Automotive Properties

Automotive Properties Real Est Inv Tr (TSX:APR.UN) is an interesting way to play a rapidly consolidating auto dealership market.

The REIT is backed by the Dilawri Group, which is Canada's largest owner of auto dealerships. The company buys a dealer and then the REIT acquires the real estate. It then rents the property back to Dilawri at a competitive rate under a long-term lease. The operator then takes care of all operating expenses.

It's a win-win scenario for both Dilawri and investors.

The current portfolio is 33 properties with a focus on major centres such as Vancouver, Toronto, and Calgary. It continues to grow rapidly; the company has announced a number of new acquisitions thus far in 2017.

The distribution is currently 6.7 cents per share each month — good enough for a 7.2% yield. The company has an AFFO payout ratio of 87%.

The bottom line

Smaller REITs like Slate Office, American Hotel Properties, and Automotive Properties don't get as much attention as some of the larger choices, which is a shame. They offer better yields than the titans of the sector, often with comparable payout ratios. Income investors, take notice.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:APR.UN (Automotive Properties Real Estate Investment Trust)
2. TSX:HOT.UN (American Hotel Income Properties REIT LP)
3. TSX:RPR.UN (Ravelin Properties REIT)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date
2025/08/24
Date Created
2017/04/17
Author
nelsonpsmith