2 Commercial REITs Worth Buying for Income

Description

Commercial real estate can be one of the most predictable income investments someone can make primarily because the leases tend to be long and, if the tenants are reliable, quite stable. But trying to build your own real estate empire can be tricky.

That's why I am a fan of investing in real estate investment trusts (REITs), special corporations that derive the bulk of their revenue from real estate. And, thanks to special tax treatment, these REITs are great dividend stocks.

Two commercial REITs that I believe are worth considering are **Dream Office Real Estate Investment Trst** (TSX:D.UN) and **Allied Properties Real Estate Investment** (TSX:AP.UN).

Dream Office

This REIT is, as its CEO said on an earnings call, under construction. It had a tumultuous 2016; many of its Albertan properties are suffering because oil prices tanked. Things got so bad, it was forced to cut its dividend.

However, the company has been righted, and I believe it presents a unique opportunity to pick up discounted shares. To combat the market not valuing the company appropriately, management has been working on selling non-core assets.

It has $1.5 billion sold or is in various stages of contract. In 2016, it took some of that cash and purchased $80.2 million worth of stock, erasing 4.2 million shares. When a company reduces the number of shares, existing shareholders become bigger owners of the company, opening opportunities to experience more growth.

From a dividend perspective, the company yields 7.57%, which is good for $0.12 in monthly cash flow. You can then use that monthly distribution to buy more shares or diversify into other dividend opportunities.

Allied Properties

Unlike Dream Office, Allied Properties isn't in any pain. That's because it focused the bulk of its square footage on strong areas: Toronto and Montreal.

For the most part, Allied Properties only has square footage in nine regions of Canada: Toronto with 4.58 million square feet; Montreal with 4.24 million; Calgary with 1.01 million; Kitchener with 538,000; Winnipeg with 342,000; Edmonton with 293,000; Vancouver with 284,000; Quebec City with 223,000; and Ottawa with 221,000 square feet.

Because of this strong holding in Montreal and Toronto, it has a network occupancy rate of 92.6%. This means that only 7.4% of its leasable square footage remains empty. This is thanks to the quality of tenant, but also the diversity. It's top 10 tenants only account for 18% of the total leasable space; this ensures that if one goes bust, it doesn't have a significant impact on the business.

The yield on Allied Properties is only 3.97%, but you can expect $0.38 per share per quarter. And with the occupancy rate increasing and new properties being added to the portfolio, I expect that management will give it a boost in the coming years.

Bottom line

Both companies are great ways to generate lucrative dividends from the commercial real estate business. Allied is a safer play because its focus is on Toronto and Montreal. However, Dream Office trades at a discount and pays a much higher yield. But frankly, both are great ways to get diversity and income in your portfolio.

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1. TSX:AP.UN (Allied Properties Real Estate Investment Trust)
2. TSX:D.UN (Dream Office Real Estate Investment Trust)

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