



Income Investors: Consider These 2 Well-Managed REITs

Description

Many income-focused investors have dedicated a significant amount of time to researching and adding real estate investment trusts (REITs) to their income-focused portfolio because these highly levered real estate-focused trusts offer yields in excess of some of the highest-yielding bonds with solid Canadian property assets underpinning the cash flow streams.

Investors aim to choose the REITs that have the highest possible yield with the safest and most predictable net operating income and free cash flow generation. They also want REITs with properties that will remain desirable over time and allow for rent increases and low vacancy rates, allowing for increased dividend distributions over time.

The checklist for REITs tends to be a long one, and in some ways, assessing REITs can take more time than valuing a typical equity security due to the large number of available comparable companies one must look at to get a sufficiently broad picture of the industry.

Having spent the time taking a look at dozens of REITs, I will highlight two options for investors that I believe can provide long-term, acceptable yields and safety profiles over time: **Canadian REIT** (TSX:REF.UN) and **Killam Apartment REIT** ([TSX:KMP.UN](#)).

Canadian REIT has risen to the top of the list for a number of reasons. This REIT has an amazing track record of 16 years of consecutive dividend distribution increases (the longest on the TSX) along with one of the most conservative payout ratios among its peers (below 72%), making Canadian REIT a prime candidate for continued annual dividend increases moving forward — in good times and in bad. This is also one of the country's best-managed REITs and the most diversified across sectors with holdings spanning office, retail, industrial, and residential, helping this REIT to maneuver the housing crisis relatively well and maintain a “slow and steady” growth profile over time.

Killam Apartment REIT has been a top pick of mine for some time, primarily due to the company's underlying asset base and geographic dispersion within the apartment sector (which I believe will be one of the best-performing real estate sectors in Canada over the long term). Currently holding a portfolio of residential real estate in the Canadian Maritimes, this REIT is expected to outperform other

trusts with excess exposure to overheated Canadian markets; the Maritimes is expected to maintain a “slow and steady” market for the indefinite future.

Bottom line

Deciding which REITs are suitable for your portfolio depends largely on individual personal risk/return preferences and long-term outlook on specific industries. These two options are great starting points for investors beginning to look at the REIT sector; however, I would encourage investors interested in REITs to take a look at as many options as possible before making an investment in this space.

Stay Foolish, my friends.

CATEGORY

1. Dividend Stocks
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TICKERS GLOBAL

1. TSX:KMP.UN (Killam Apartment REIT)

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