Boost Your TSFA Portfolio’s Income With These 2 REITs

Description

Real estate in Canada is sky high, and interest rates are going up. As a result, REITs have been under pressure both from their real estate exposure and the effect of interest rates on high-yield stocks. This could mean that deals abound for investors seeking steady payouts from excellent companies.

REITs have added excellent income to portfolios over the years. They are particularly suited to holding in a registered account, such as a TFSA or RRSP, because their payouts are not dividends, but distributions. These distributions are fully taxable in a non-registered account, but you can keep the entire payment if it is made within a registered account.

But are REITs worth putting in your portfolio at this point? I have to admit, I am cautious on nosebleed Canadian real estate. However, if you have no real estate exposure in your life, it might make sense to buy one of these high-payout companies. I would suggest sticking to larger REITs, such as **H&R Real Estate Investment Trust** (TSX:HR.UN) or **RioCan Real Estate Investment Trust** (TSX:REI.UN) to mitigate any potential negative fallout from a real estate downturn, should it occur.

H&R Real Estate Investment Trust

H&R REIT is one of the most diversified in Canada. The company owns and operates hundreds of properties located in major cities in Canada and the United States. In addition to its geographic diversification, H&R has office, industrial, retail, and residential properties. This diversification by category should insulate H&R somewhat from the recent challenges facing retail.

The REIT receives rent from a number of stable, high-quality clients. Client stability has resulted in low turnover rates and steady revenues from occupants over the year. The company trades at a P/E multiple of 17 and a P/B of 1.1, leaving the valuation reasonable.

H&R pays a monthly distribution of almost 7%. H&R does not raise the distribution every year, and the last raise was in December 2016. However, the distribution appears to be well supported by the steady income the company earns from its properties.

RioCan Real Estate Investment Trust

RioCan is a Canada-focused REIT that owns and operates properties rented by numerous high-quality clients. The company receives the majority of its rent from major grocery stores, drug stores, many of the Canadian banks, and even the Ontario government liquor store, the LCBO. Most of its clients are in stable business sectors that will probably be around for some time.

The company had some issues over the last few years, losing a few well-known companies that seemed stable at the time. The departure of Target from Canada, the downfall of Toys "R" Us, and the demise of Sears Canada have all left vacant properties for the property company to fill, which RioCan has done, for the most part.

RioCan has rental properties all over Canada. In order to diversify risk away from its core commercial property business, it also launched a rental brand, RioCan Living, to capitalize on the demand for rental housing in cities with sky-high property prices like Toronto.

Like H&R, RioCan does not raise its distribution frequently, but the payout is great. The current distribution increased 2.1% this year, leaving the current yield of almost 6%. RioCan is attractively valued and currently trades at a P/E of 12 and a P/B of one.

Conclusion

H&R and RioCan would best suit investors who do not have a lot of real estate investments and, ideally, could put these in a registered account. Remember, REITs pay distributions, not dividends, which are fully taxable outside a TFSA or RRSP. But if you want to add some relatively stable, high-yield companies to your portfolio, H&R and RioCan might just be what you need.

CATEGORY

1. Dividend Stocks
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TICKERS GLOBAL

1. TSX:HR.UN (H&R Real Estate Investment Trust)
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