Should You Buy These REITs That Offer Yields of up to 6.9%?

Description

The Canadian market, represented by **iShares S&P/TSX 60 Index Fund**, offers a yield of about 2.6%. Investors need to explore specific areas of the market for above-average income. The real estate investment trust (REIT) sector is a good place for juicy income.

Real estate properties are hard assets that tend to generate stable cash flow. It's likely too costly and counter-intuitive for retail investors to buy a portfolio of real estate properties to generate rental income. REITs are an easy option for investors to get nice income from commercial real estate.

In particular, diversified REITs, including **H&R Real Estate Investment Trust** (TSX:HR.UN) and **Cominar REIT** (TSX:CUF.UN), have a portfolio of real estate of different asset types, such as retail, office, and industrial, from which they generate cash flow. However, are the REITs good buys right now?

H&R

H&R recently sold most of its U.S. retail portfolio and will put more focus on its residential real estate investment. Specifically, it sold 62 U.S. retail properties for about US$620 million; one more grocery-anchored centre is under contract to be sold for US$12.6 million.

About a third of the proceeds will be used to repay mortgage debt with the remaining portion to be used to fund the Lantower residential acquisitions.

At the end of 2017, Lantower comprised of 17 properties in the United States with a total of 5,633 multi-family units, having an average age of 7.3 years, along with two properties under construction, which will add another 990 multi-family units.

H&R REIT plans to sell the remainder of its U.S. retail properties, which include 16 gas and convenience stores and one grocery-anchored centre in Florida. As well, it also plans to sell its 12 U.S. industrial properties.

After the sales, the REIT will have about 37 office properties, 72 retail properties, 79 industrial properties, and 17 residential properties.

Cominar

Cominar is also a transforming REIT. It has made asset sales over multiple years, which has reduced its cash flow but helped it improve its balance sheet. As a result, it had cut its distribution.

Investor takeaway

H&R offers a nearly 6.9% yield. Its first-quarter funds-from-operations (FFO) payout ratio was under 78%. H&R is making quite a significant change to its portfolio. And the immediate effect of asset sales is reduced cash flow. So, it'd be prudent to wait for a quarter or two to see how the payout ratio is affected before considering the stock for income.

Cominar offers a yield of almost 5.7%. With a monthly distribution of $0.06 per unit, its payout ratio of 62% based on its first-quarter FFO generation is more sustainable. The stock could be an interesting turnaround story a few years down the road.

Investors should explore other stocks for current income.

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