Do You Need to Boost Your Retirement Income?

Description

Some retirees may be living off their passive-investment income. If they need to boost their income immediately, real estate is a great place to invest for high yields.

Buying physical buildings is a huge investment. Thankfully, real estate investment trusts (REITs) allow investors to get juicy monthly cash distributions as a part of their retirement income. Moreover, Canadian REITs usually offer cash distributions that are favourably taxed compared to income received from a job that's taxed at your marginal tax rate.

Here are a couple of REITs for your consideration.

American Hotel Income Properties REIT (TSX:HOT.UN) offers a whopping distribution yield of 9.31% at $9.03 per unit as of writing. It owns a U.S. portfolio of premier-branded hotel properties primarily in secondary markets as well as hotels that cater to railway crews. Some of its brands include Residence Inn, Hampton Inn and Suites, and Holiday Inn Express.

American Hotel's properties are located within or near large populations, transportation corridors, or other demand generators, such as business parks, sports arenas, and medical centres.

In the first half of the year, 82% of American Hotel's net operating income came from its branded hotel portfolio and 18% came from its rail portfolio. The REIT has 11,591 rooms across 114 hotels in 91 cities.

In the past, American Hotel's Q2 and Q3 results tend to be stronger than its Q1 and Q4 results. So, interested investors should look for an entry point after the company reports its Q4 or Q1 results. Because of these seasonal impacts, it's best to compare the REIT's annualized results over time.

American Hotel's 2017 funds from operations payout ratio was 79%. On an adjusted basis, it was 91%. So, American Hotel's distribution should be sustainable.

American Hotel's cash distribution is comprised of U.S. dividend and interest income. So, investors should hold the stock in their RRSPs/RRIFs to avoid the 15% U.S. withholding tax, which would otherwise reduce the income you'll receive from the stock if held in TFSAs or non-registered accounts.

NorthWest Healthcare Properties REIT (TSX:NWH.UN) owns a portfolio of quality healthcare properties, including medical office buildings and hospitals, in five countries. The roughly 150-property portfolio generates stable cash flows with a high occupancy of +96% and a weighted average lease expiry of about 12 years.

At $11.25 per unit as of writing, NorthWest Healthcare Properties offers a nice yield of 7.11% with a normalized payout ratio of 89%. Many of its properties have built-in inflationary hedges with long-term indexed leases.

In the past, NorthWest Healthcare Properties's cash distributions were mostly return of capital that would be tax deferred if unitholders held the shares in their non-registered accounts. Last year, 100% of its cash distributions were return of capital.

The return-of-capital portion of cash distributions reduces unitholders' adjusted cost basis of the stock. This portion of the distribution is tax deferred until unitholders sell or their adjusted cost basis turns negative.

If you hold the stock inside TFSAs, RRSPs, or RRIFs, you don't have to worry about this. However, from a tax perspective, for most situations, it's best to hold the REIT in a TFSA or non-registered account. When in doubt, check with your tax specialist.

NorthWest Healthcare Properties has done well in the last few years. If possible, interested investors should buy on dips to boost their initial distribution yields.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:HOT.UN (American Hotel Income Properties REIT LP)
2. TSX:NWH.UN (NorthWest Healthcare Properties Real Estate Investment Trust)

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