3 REITs Yielding 4% to Put in Your TFSA

Description

For investors looking for real estate investment trusts to put in your TFSA, it's always nice to include stocks yielding 4% or more because the income generated is tax-free.

However, it's one thing to be paid on a tax-free basis to wait for appreciation. It's entirely another to expose yourself to unnecessary risk. So, while a 4% yield might be enticing, if the payout's too high, a REIT that runs into cash flow trouble might have to reduce its monthly distribution.

When that happens, you could see your 4% yield balloon to 8% thanks to a falling stock price.

For this reason, it makes sense to invest in REITs that pay out less than 70% of their cash flow, leaving a little cash in reserve. While **Northwest Healthcare Properties REIT** (TSX:NWH.UN) operates in a very attractive segment of the real estate market and pays a healthy 7.0% dividend yield, it also pays out 90.2% of its annual cash flow, the second-highest payout ratio of the 19 TSX-listed real estate investment trusts with a market cap of greater than $1 billion.

The only REIT to pay out more is **Artis Real Estate Investment Trust** (TSX:AX.UN) at 105.7%. To make matters worse, Northwest has more than three times as much debt as equity, making its leverage, in my opinion, too high for tax-deferred or tax-free investment vehicles like the RRSP or TFSA.

With that in mind, here are three REITs yielding 4% or more and paying out less than 70% of its cash flow.

Dream Office Real Estate Investment Trust (TSX:D.UN)

The Toronto-based REIT has a current yield of 4.1% and a payout ratio of 69.3%.

Dream Office is one of those REITs I mentioned that's had to reduce its monthly distribution as a result of cash flow problems from some of its former properties in Alberta.

As Fool contributor Demetris Afxentiou recently pointed out, Dream Office has cut its dividend payout on a couple of occasions over the past three years while also selling non-core assets outside Canada's major cities.

Investors didn't like the cuts sending its stock lower. However, the two moves along with the repurchase of $1.1 billion in stock have put the REIT in a much sounder financial position, making its 4% yield far less risky than it might have been in 2016.

Killam Apartment REIT (TSX:KMP.UN)

The Halifax-based REIT has a current yield of 4.0% and a payout ratio of 67.6%.

I've been a fan of Killam for some time. I first recommended its stock in April 2017, suggesting that it was only a matter of time before the Maritime REIT hit a $1 billion market cap. It did and the company now has a $1.36 billion market cap.

I like the REIT because management has done a good job of balancing current cash flow with future cash flow through smart acquisitions of existing properties along with the development of future rental properties on land it owns both here in the Maritimes and in Ontario and Alberta.

It's a one-two punch that should keep investors very satisfied in the years to come from both an income and capital gains perspective.

CT Real Estate Investment Trust (TSX:CRT.UN)

The Toronto-based REIT has a current yield of 5.5% and a payout ratio of 64.9%.

If you believe in the future success of **Canadian Tire** (TSX:CTC:A) and its various retail brands, you're probably going to be attracted to this REIT because its major tenant and owner is none other than Canadian Tire.

As Canadian Tire goes, so goes CT REIT, providing 93% of the REITs annualized base minimum rent. However, the REIT is diversifying its revenue away from Canadian Tire by intensifying existing properties it already owns. Since its IPO in 2013, it has partnered with Canadian Tire to intensify more than 30 properties across Canada.

In partnership with Oxford Properties, it owns two-thirds of a massive mixed-use development in midtown Toronto, where Canadian Tire's headquarters are located. The property includes three office buildings, retail, a cinema, and 745 parking spots totaling 844,000 square feet of leasable space with significant future expansion available.

In good times and bad, having a tenant like Canadian Tire for most of your properties is a winning proposition for investors concerned about risk.

If I could only invest in one of these REITs, I'd go with Killam, but all are worth considering.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:AX.UN (Artis Real Estate Investment Trust)
2. TSX:CRT.UN (CT Real Estate Investment Trust)
3. TSX:CTC.A (Canadian Tire Corporation, Limited)
4. TSX:D.UN (Dream Office Real Estate Investment Trust)
5. TSX:KMP.UN (Killam Apartment REIT)
6. TSX:NWH.UN (NorthWest Healthcare Properties Real Estate Investment Trust)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Date
2025/10/01
Date Created
2018/09/11
Author
washworth