May Income Ideas: Boost Your Retirement Portfolio Monthly Cash Inflows With This 6% Yielder

Description

Even after the Bank of Canada raised policy rates in 2018, traditional income yields remain very low, with five-year and 10-year government bond benchmark yields hovering around 1.52% and 1.69%, respectively.

There isn't much one can expect to earn from safe bond investments, but there can be some juicy monthly paychecks from the relatively safe REIT investment asset class, and one of the best diversified names in the sector, **H&R Real Estate Investment Trust** (TSX:HR.UN) is offering a 6% historically stable yield with some potential for capital gains over a long-term investment horizon.

Why is H&R REIT attractive?

One of Canada's largest diversified REITs with a nearly $14.7 billion asset portfolio serving the office, industrial, residential and retail segments in Canada and the United States, H&R REIT offers a juicy and stable $0.115 a unit monthly distribution that currently yields 6% yield on an annualized basis.

At a 79.4% funds from operations (FFO) payout rate for 2018, the REIT's distribution was very well covered last year, even after some massive strategic asset sales from mainly its U.S retail portfolio disposals reduced the REIT's total operating income during the second half of the year.

The strategic move to redeploy the sales proceeds largely toward the growing and more resilient U.S. residential property segment acquisitions and a heavy $1.5 billion development pipeline may support operating earnings stability and net asset value growth in the near term.

Most noteworthy, the REIT had one of the lowest debt ratios going into 2019 with a debt to total assets ratio of 44.6%, depicting a lower leverage and equity risk, and this also affords it a larger room to cheaply fund new growth projects.

Debt remains the cheapest source of REIT growth capital as the sector generally pays out almost all internally generated earnings, and a low debt ratio allows room to tap into this source of low cost funding, especially now that Bank of Canada seems not so keen to continue increasing interest rates.

As opined earlier, the discount to net asset value on the units' market price, now at 10%, is shrinking fast in 2019 as investors warm up to the prospect of an even stronger H&R REIT as recently acquired assets and new developed properties get higher occupancy levels.

Average portfolio occupancy levels for H&R stood at 94% exit 2018, led by an office segment that boasted a 98.5% occupancy rate last year, with an average remaining lease term of a staggering 11 years. Portfolio occupancy remained very strong, overall, even after the closure of Sears Canada stores in 2018 dealt some blow to the REIT's retail asset portfolio.

Investors in H&R REIT's units could enjoy a stable monthly income payout for longer, supported by long-term leases with contractual rent escalations, a high stable occupancy rate and a growing development pipeline that can still be easily funded through a high borrowing capacity.

The REIT's will release its first-quarter 2019 results on May 22, at midnight and I would be eager to check how management is doing in leasing out the nearly complete Jackson Park, a 1,871 luxury residential rental unit development in Long Island City, a strong operating income growth generator.

The re-leasing and redevelopment efforts for the ex-Sears and Target stores retail space will be under the spotlight too, while progress in leasing out the Lantowa Residential properties which had an 88% occupancy rate in December last year will be in focus as well as these issues will drive FFO growth over time.

Investor takeaway

H&R REIT offers a compelling income investment offering today. Although there can be some execution risk as management redeploys capital from the massive asset disposals of yesteryear, strong occupancy levels, growing same asset net operating income profiles and a strong development pipeline will support a stable and potentially growing monthly pay out combined with some tangible capital gains.

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