2 Top REITs Yielding 6% or More to Buy Today

Description

One of the easiest ways to achieve investing success and build a steadily growing, regular stream of passive income is by investing in real estate investment trusts (REITs). They are generally less volatile than other stocks, including those blue-chip companies that pay steadily growing dividends, and provide retirees as well as other income-hungry investors with regularly growing distributions.

While some REITs, notably those that own shopping malls and other retail premises, are coming under pressure they still have higher yields than regular income-generating assets such as bonds. Many are rewarding investors with yields in excess of 5% which is roughly triple the current yield offered by Canadian 10-year government bonds.

Let's take a closer look at two quality REITs that appear undervalued, provide diversified exposure to a mix of properties, and possess juicy yields of 6% or more.

Dream Industrial REIT (TSX:DIR.UN)

This REIT owns a diversified portfolio of around 244 light industrial properties located across Canada and the U.S., with over 20 million square feet of gross leasable area. Dream Industrial currently pays a regular monthly distribution yielding a juicy 6%, which is sustainable when the REIT's funds from operations (FFO) payout ratio of a low 84% is considered.

The REIT reported some solid first-quarter 2019 results, including an occupancy rate of 96.5% and a 17.5% year-over-year increase in FFO. Dream Industrial also finished the quarter with a very manageable level of debt with a net-debt-to-assets ratio of 42.4%, which was a healthy 7% lower than a year earlier.

The REIT appears attractively valued with it trading at a moderate 11% premium to its net asset value, making now the time to add Dream Industrial to your portfolio.

Slate Office REIT (TSX:SOT.UN)

Slate Office owns a portfolio comprised of 41 office assets, predominantly located in eastern Canada and Illinois, with 7.6 million square feet of gross leasable area. The REIT finished the first quarter with some solid numbers. These included an occupancy rate of 87.7%, which was 1.8% greater than the equivalent quarter for 2018 and a notable 20% increase in FFO to $13.5 million. Slate Office's balance sheet also improved with net debt of 11.2 times EBITDA compared to 14.2 times a year earlier.

The regular monthly distribution yielding a very juicy 6.5% appears sustainable with an FFO payout ratio of 87.8% for the first quarter 2019 and trailing 12-month ratio of 95%. That payout ratio will fall significantly because of management's decision to cut the annual distribution to $0.40 per unit at the end of 2018, as they focused on bolstering Slate Office's balance sheet, improving liquidity, and positioning for growth. Based on that lower distribution, the FFO payout ratio should normalize at somewhere around 53% or possibly lower, as earnings expand because of reduced financing costs and the leasing of two Chicago properties purchased in 2018.

What makes Slate Office a compelling addition to any portfolio, aside from its juicy 6.5% yield, is that it is trading at a 28% to its net asset value per unit, indicating that there are significant gains ahead. As a result of this valuation disconnect, management has elected to acquire up to 10% of all outstanding units as part of a buyback aimed at boosting Slate Office's market value.

The bottom line

Both REITs provide investors with the opportunity to boost income with their very attractive yields in excess of 6%. They are also attractively valued. This means there is significant potential for investors to generate substantial returns on the capital invested, making now the time to buy.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:DIR.UN (Dream Industrial REIT)
2. TSX:RPR.UN (Ravelin Properties REIT)

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