Dividend Investors: Turn Your TFSA Into a $500/Month “Mini Pension” With This Quality REIT

Description

If you’re a fan of high distributions, then there are few options out there better than REITs. Although there are juicy yields to be found in almost every sector, REITs are unique in that high and frequent distributions are the rule rather than the exception among them.

Of course, when making any investment decision, you need to weigh costs against benefits. Although REITs tend to pay high distributions, they’re unfortunately lacklustre in terms of historical returns, and with Canadian real estate doing fairly poorly right now, that may not change any time soon.

But that doesn’t mean you can’t find diamonds in the rough. Although housing and strip malls are tanking, not all REITs necessarily operate in these niches, and those that don’t may have better prospects than REITs as a class. In Canada, it’s possible to find REITs specializing in everything from office towers to medical clinics to big-box stores. In this article, I’ll be sharing one with a very high yield that could pay you handsomely into the future.

Slate Office REIT (TSX:SOT.UN)

Slate Office is a REIT that focuses on downtown office buildings rented by professional clientele. This puts the company in a fairly fortuitous niche within real estate that shelters it from falling housing prices and the long-term vacancies that plague strip malls. In Toronto, a market where Slate has a number of assets, office rents are reportedly surging due to scarcity of available space.

Recent earnings

In its most recent quarter, Slate Office reported $57 million in revenue and $5.9 million in net income. Revenue was up 29% year over year, although net income fell due to an increase in property management expenses and changes of fair value of Class B Units.

Dividend history

Currently, Slate Office REIT pays a monthly dividend that works out to $0.40 on an annualized basis. This provides a 6.5% yield at current prices — enough to generate $500 in monthly income on a $92,000 portfolio. This high yield may be an attractive feature to investors in itself, although it should be noted that the distribution was recently cut: in March of this year, it was reduced from $0.062 to $0.033 per month. Granted, the yield is still high, but to the extent that you see a falling distribution as a bad omen, this might be a reason to stay away from Slate Office.

Foolish takeaway

Canadian real estate has not been having a great year in 2019, but there are still some opportunities to be found in the space. With the majority of real estate carnage being concentrated on housing and strip mall-type properties, you can do better than average by avoiding those markets. Slate Office REIT appears to have done so. Focusing mainly on office buildings in hot markets like Toronto, it has performed better than many other real estate investments this year.

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