3 REITs to Diversify Your Income-Oriented TFSA

Description

The value of investing in real estate through publicly traded trusts has been discussed at length. There's no doubt adding a few real estate investment trusts (REITs) to your Tax-Free Savings Account (TFSA) could lead to substantial passive income over time. But investors fail to recognize the value of diversifying their real estate investments the same way they would with their stocks.

Real estate, after all, isn't a homogeneous asset class. The location and type of underlying properties could have a substantial impact on the income generated from a REIT portfolio. With that in mind, here are three robust REITs that cover different sectors of the real estate market and should be considered for any income-oriented TFSA.

Canadian apartments

Starting with the basics, **Canadian Apartments REIT** (TSX:CAR.UN) is perhaps the ideal instrument for exposure to Canada's bustling residential property market. Although the market has been tepid for sellers across the nation in recent years, renters still face an acute supply shortage that has been pushing rents sky high.

The rental market is more tethered to economic fundamentals (people can only pay as much as they earn), and CAPREIT's portfolio is well positioned in this sector. The company has focused on adding high-end and mid-tier apartments concentrated in the city centres of Canada's most populated metropolitan regions (Vancouver, Toronto, Montreal, etc.).

According to the company's latest annual report, it operates 41,587 suites across the country, with a phenomenal 99.2% occupancy rate and average monthly rental income of $1,204. In recent years, the trust has been attempting the same strategy with student rental properties, suites in the Netherlands, and apartments in Ireland.

Although the 2.8% dividend yield isn't impressive enough, I believe the CAPREIT's portfolio and track record deserve a closer look.

European offices

Although it is listed in Toronto, **Inovalis REIT** (TSX:INO.UN) is focused on properties in Germany and France. Specifically, the company acquires and manages a portfolio of office buildings located in first- and second-tier cities spread across the two countries.

As of September 2018, the company operated 14 office properties with an occupancy rate of 93% and weighted average lease term of 4.7 years. These deals and the rental yield from the portfolio must be rather lucrative because the company offers an 8% dividend yield at the moment.

In fact, the stock is also trading at a 13% discount to book value. Inovalis seems like a well-diversified REIT that has slipped under the radar for most investors and certainly deserves a closer look.

Canadian offices

The correlation between offices and houses is rather low, while the interest rates, regulations, and rental yields are completely different. **Dream Office REIT** (TSX:D.UN) offers investors a way to balance their residential real estate investments with Canadian office space.

The trust holds business properties primarily in the Toronto area. The portfolio has been transformed since 2015, after the company reported significant losses. Over the past four years, the trust has sold 129 properties and now manages just 37. However, these remaining properties offer much higher margins and better prospects, which has helped the company swing back into profitability since 2017.

The stock currently offers a 4.29% dividend yield, and management has kept the payout ratio at 34%, which indicates that there's plenty of room to grow.

Foolish takeaway

From European offices to student living suites, there's plenty of variety in the real estate sector. Passive-income-seeking investors should consider diversifying their holdings to bolster their portfolio for long-term gains.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CAR.UN (Canadian Apartment Properties Real Estate Investment Trust)
2. TSX:D.UN (Dream Office Real Estate Investment Trust)
3. TSX:INO.UN (Inovalis Real Estate Investment Trust)

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vraisinghani