



TFSA Investors: Earn \$730 a Month in Passive Income From This REIT

Description

Canadian REITs have generally taken off in 2019, but some of [the best-performing ones](#) no longer offer much in income yields today, save for a few little-known small players like **PRO Real Estate Investment Trust** ([TSX:PRV.UN](#)), which still offers a juicy 8.73% yield, even after a 25% capital gain so far this year.

PRO REIT is a fast-growing diversified trust that owns 91 properties totalling over 4.4 million in gross leasable area, serving the retail, office, industrial, and commercial mixed-use tenant needs across Canada.

There are several important data points making this small real estate player a promising buy today.

The trust is growing very fast. Investors who might have heard of this emerging diversified real estate giant earlier may recall that it had just over \$70 million worth of portfolio assets back in 2013. The asset base has since grown sevenfold to \$524 million by June this year, and the trust was very active in the property acquisitions space in September.

The growing portfolio of income-producing properties results in higher income and better economies of scale while also reducing portfolio risks due to improved diversification by property location and by economic use functions. This should be accretive to the REIT's adjusted funds from operations (AFFO) stability.

Further, I like the improving leverage in the portfolio. PRO's debt to book value improved from over 60% last year to 58.26% by midyear this year, as trustees worked on reducing the portfolio's risk profile during a brief period of increasing interest rates in 2018, which weighed heavily on the equity units' prices.

As interest rate growth fears have subsided this year, equity units have recovered significantly, while management has been able to tap into the mortgages market at interest rates near 3% when acquiring new properties at very reasonable capitalization rates over 6%. I would expect portfolio earnings to improve going forward.

Property management functions were recently internalized to save costs and align management interests with those of investors.

Most noteworthy, same property net operating income grew an impressive 7.4% year over year during the second quarter of this year, as portfolio occupancy levels continued to improve to nearly 98% exit June this year, and the trust's AFFO payout rate has significantly improved to just 102% by midyear from over 119% during the same period last year.

PRO's monthly distribution is better covered and thus much safer today than it was last year, yet there remains a juicy yield still to be harvested on a long-term investment.

How to earn \$700 monthly?

A \$100,000 investment in PRO today, after trading costs, could buy 13,908 units at the current \$7.19 price and enable one to receive about \$730.17 in monthly distributions, or up to \$8,762 in passive income annually.

A \$100,000 investment is a lot though, but one can build a small position in the trust and use the lucrative dividend-reinvestment plan (DRIP) to reinvest the monthly proceeds at no extra trading costs.

The beauty of PRO's DRIP is that it pays you a bonus 3% incentive on top, and this could significantly compound your rate of position growth in this promising real estate giant.

CATEGORY

1. Dividend Stocks
2. Investing

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1. TSX:PRV.UN (Pro Real Estate Investment Trust)

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