Retirees: 1 REIT Option to Boost Your CPP Payout

Description

With regard to the Canada Pension Plan (CPP), the maximum monthly benefit payout amount one could receive as a new recipient starting the pension at age 65 is $1,154.58, translating to just under $13,900 annually. The average payout is much lower at around $679.16, and this may not be enough to finance one's desired lifestyle and expenses in retirement.

You may need to augment this paycheck with some dependable monthly-pay financial assets in a TFSA account, and one of the best options remains in the highly liquid real estate investment trust (REIT) sector, where contractual rents offer bond-like regular cash flows, while usual asset price appreciations could boost unit values over time.

Canadian REITs have largely taken off in 2019 with some of the best-performing sector tickers delivering over 41% in total gains so far this year. Yields have largely come down, but there are some potentially undervalued investment options still available that could offer respectable, long-term, stable income yields in a retirement portfolio.

Let's discuss one of them.

SmartCentres REIT

SmartCentres Real Estate Investment Trust (TSX:SRU.UN) is one of Canada's finest REITs. It hasn't taken off like most peers in 2019 and could thus present investors with a good current yield and a cheaper exposure to high-quality and fast-growing real estate assets to power a resilient income-producing retirement portfolio.

The REIT holds a $9 billion portfolio of predominantly retail shopping centres with **Walmart** Canada as an anchor tenant. The portfolio continues to rank among the best in the industry with an in-place occupancy rate that has grown to 98.1% exiting the third quarter of 2019, irrespective of some noted retailer bankruptcies.

I like the significant transformation that the trust has been undergoing over the past two to three years, as it diversifies its property portfolio into mixed use assets, self-storage, office, and residential properties.

Management has increased the number of identified mixed-use development projects from 168 to 256, to be built on 94 of the trust's properties, which could result in a $12.1 billion asset base, of which SmartCentres's share will be $5 billion — significant long-term growth in the income generation power of the portfolio.

Investors will begin to enjoy proceeds from the transformative developments very soon, as revenue from the early-stage projects is expected to increase the portfolio's funds from operations (FFO) by over 10% in 2020.

Units currently offer a respectable distribution yield of 5.77% after a recent 2.8% increase was effected last month. The yield is still well covered with an adjusted cash flow from operations (ACFO) payout rate of 88.6%, which slightly increased this year post the January new equity financing round. The payout rate could trend lower next year, as FFO increases as guided.

Leverage has continued to decline to just 41.8% of total assets, down from 44.3% by September 30, 2018, and that's a significant positive, as the trust has better cash flow breathing room and a better ability to tap into the financial markets for new financing for lucrative development projects in the future.

The REIT's units could soon enjoy higher valuation premiums when new transformative mixed-use development projects increasingly occupy significant proportions of its property portfolio, as the stigma usually associated with a perceived "dying" physical retail store model is diluted by premium mixed-use assets going forward.

That could imply capital gains to your investment portfolio, further growing the nest egg.

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TICKERS GLOBAL

1. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)

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Date

2025/08/27
Date Created
2019/11/19
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