Forget Savings: 2 REITs to Buy for Retirement Income

Description

Retirement income is an endless balancing act that requires one to consider not only the upfront distribution yield, but also the magnitude of distribution growth moving forward, the sustainability of the distribution, and the potential for capital appreciation.

So, don't be one of those retirees who's all about the yield and claims they don't care about principal risk, because you could be leaving a lot on the table. Like it or not, it's in the best interest of retirees to keep as many options open with optimal securities that blend income, safety, and growth to meet one's unique needs. Consider the following two REITs that, when combined, looks to be a balance these three attributes.

SmartCentres REIT

SmartCentres REIT (TSX:SRU.UN) is a retail REIT that's misunderstood by most investors. The name sports a bountiful 5.8% yield and is behind the **Wal-Mart**-anchored Smart Centre strip malls that continue to generate tonnes of traffic, despite the "death-of-the-shopping-mall" fears that cause some to shun retailers and the retail REITs.

Not only does Wal-Mart make SmartCentres a robust REIT with a durable competitive advantage in the retail space (Wal-Mart continues to do incredibly well in spite of continued e-commerce headwinds), but the REIT has an opportunity to create value for shareholders through its move into mixed-use properties.

SmartCentres isn't just a strip mall REIT; it's a powerful retail REIT with ambitious development projects that could accelerate AFFO growth and produce substantial shareholder value over time. Master-planned communities with a symbiosis of residential and retail is what the REIT is going after. While most investors fret over the name of the company and the fact that it's a retail-focused REIT, I'd take the opportunity to load up on shares with the intention of holding onto them for the long haul.

The distribution is quite large, but it can become so much more significant over time.

InterRent REIT

Did you ever dream of flipping houses to make huge profits like many of the folks do on TV?

It’s harder than it looks, especially if you’re not a deep-pocketed handyman extraordinaire who’s also well-versed in residential real estate sales, you could be at risk of losing your shirt in a hurry. While there is a tonne of outsized rewards to be had in the business of fixing up old residential units, it’s a much wiser idea to leave it to the pros.

Fortunately, investing in a pro is pretty simple with a name like **InterRent REIT** (TSX:IIP.UN), a residential REIT that’s produced massive value for shareholders by acquiring run-down or poorly managed apartment complexes with the intention of sprucing them up (while improving management of the facility) and reaping the rewards of higher rents that can be charged to prospective renters.

InterRent doesn’t “flip” the properties it acquires. It has the financial capacity to retain the income-generating properties and hold them for the long term. Where the value is created is through the “spruce up,” which is the primary source of what makes “home flipping” so profitable with those who know what they’re doing.

For InterRent, the results over the years have been nothing short of spectacular with shares of InterRent surging 175% over the past five years. The REIT has a proven model, and its durable competitive edge lies in its exceptional management team who knows how to manage the risks that come with its niche business.

With a 1.9% yield, the name isn’t a big income play. Still, it does have the capacity to deliver outsized distribution growth and capital appreciation over time, both of which will keep a retiree’s nest egg growing.

CATEGORY

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

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