Income Investing: Get a More Than 5% Yield From 2 Strong REITs

Description

I didn't spend a lot of time investing in REITs myself. I've generally stayed away from the sector, mostly due to the fact that real estate was quite bubbly worldwide. The recent downturn in REITs made them more appealing than they were previously. Yields are high, and many REITs are trading well below their book values.

In other words, unit price reductions are pricing in reduced income from rents and falling property prices. I am not saying that there will not be a real estate collapse in the coming year. I simply believe that at this rate, expectations are so low for the sector that any positive news could result in a re-rating of unit prices.

Distributions might be at risk, to be certain. It is possible that many REITs will have to cut in order to conserve capital, especially if the pandemic lockdown stretches out for too long a period. If you want to look for cheap stocks with great distributions, this is a sector worth checking out. Even in this sector, however, there are stocks that have more secure business models. These REITs are discounted from their highs but are still quite strong.

Medical properties

One REIT that maintains fairly steady demand is in the medical space. **Northwest Healthcare Properties REIT** (TSX:NWH.UN). Healthcare property tenants still have customers, which is positive in this day and age. This is reflected in the valuation. While office and retail REITs have been cut to very low valuations, NWH still trades at a premium. Currently, the REIT is valued at 1.23 times book value.

The distribution is also pretty substantial at 7.5% and should be one of the most secure out there. It hasn't been raised in years, but the monthly income has been consistent over the time frame.

The company has a very diversified portfolio of medical properties. It operates in several countries including Canada, Germany, Brazil, Australia, and the Netherlands. These properties support hospitals and other types of medical buildings.

Core retail

Another good REIT to consider is **Choice Properties REIT** (TSX:CHP.UN). Many huge companies operate on their premises. Companies like **Walmart**, **Loblaw**, and **Canadian Tire** are tenants of the REIT. These are stable businesses that have been profitable throughout the lockdown. As a result, the REIT commands a premium.

Its value has also hung in pretty well. The company is now trading at just over its book value. The yield is quite attractive as well at 5.7% at the time of this writing. Its stable tenant base should keep paying their rents leaving the distribution in a solid position.

The bottom line

These REITs are as defensive as you can get. They are perfectly suited to make it through this downturn. Their tenants consist of defensive businesses, like hospitals and groceries. Nevertheless, they have been cut down like the rest of the real estate sector. Their prices aren't bargains, but the premium valuations are justified as the price of a more secure investment.

If you choose to go with these REITs, you are not getting the cheapest stocks. You are, however, getting a great yield in excess of 5% at a reasonable price. If you want income and a reasonable amount of safety, these stocks would be good to add.

CATEGORY

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TICKERS GLOBAL

1. TSX:CHP.UN (Choice Properties Real Estate Investment Trust)
2. TSX:NWH.UN (NorthWest Healthcare Properties Real Estate Investment Trust)

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Author
krisknutson