2 Monthly Dividend Stocks for Retirees

Description

It's a challenging year for retail real estate investment trusts (REITs), particularly those with great exposure to enclosed malls. To reduce the spread of the COVID-19 pandemic, the government has mandated temporary closures of many malls this year, thereby impacting rental income for REITs with mall exposure.

A defensive retail REIT for monthly income

Interestingly, one retail REIT has had very little impact from the COVID-19 disruptions so far. **CT REIT** (TSX:CRT.UN) collected 98.5% of its rents in July. Moreover, it experienced adjusted funds from operations (AFFO) per unit growth of 2.8% in Q2 against the same period in 2019.

CT REIT's AFFO payout ratio in the first half of the year (H1) was 77.3%. Therefore, it had the room to increase its cash distribution by 2% this month. The new cash distribution boosts its yield to almost 5.8%. A dividend increase in the current environment is a big deal for a retail REIT!

The REIT's portfolio consists of 92.1% of gross leasable area that's occupied by **Canadian Tire** and its other banners. This part of the portfolio along with its four industrial properties are fully occupied, resulting in a very high portfolio occupancy rate of 99.3% at the end of Q2.

CT REIT is therefore a defensive stock for retirees to generate monthly income from. $10,000 invested in the REIT will generate passive income of about $580 a year.

At $13.87 per unit at writing, the retail REIT has upside potential of about 13% to get back to its normalized levels. So, over the next 12 months or so, total returns of close to 19% are possible.

A diversified REIT for monthly income and a turnaround

While turnaround investments have near-term challenges, they can also be very rewarding multi-year investments. **H&R REIT** (TSX:HR.UN) stock has been heavily punished due to its retail exposure.

The stock yields about 6.7% today, after falling more than 50% year to date and prudently cutting its cash distribution by 50% in May. This results in a lower FFO payout ratio that better protects its current dividend yield. Its Q2 payout ratio was 60.4% against Q2 2019's 69%.

H&R REIT collected rents of 64%-69% from its retail portfolio between April and June. The rent collection improved to 77% in July and is expected to be 71% this month. So, it's remaining solidly above 70%.

Rent collection for H&R REIT's remaining portfolio (office, residential, and industrial assets) has been 90%-99% since April. Consequently, the total rent collection was 87%-89% between April and June, 91% in July and is expected to be about 87% this month.

H&R REIT is a riskier investment than CT REIT. The stock has fallen accordingly. Because of its near-term challenges, it offers greater income and total returns potential.

$10,000 invested in H&R REIT will generate annual passive income of approximately $670. At $10.28 per unit at writing, the diversified REIT can potentially double over the next two to three years.

The Foolish takeaway

Conservative retirees would probably choose CT REIT over H&R REIT, as the former stock's cash flow generation has been more resilient during this pandemic.

However, those who decide to take on greater risk with a position in H&R REIT will be rewarded with 15% more in income and much greater upside potential. H&R REIT's monthly dividend appears to be safe with a recent payout ratio in the 60% range.

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kayng