Passive Income: Turn $20,000 Into a $975-a-Year Income Stream

Description

The housing market in Canada has just come off a record-breaking summer. There are questions regarding whether this trend will continue or whether people should brace themselves for a slowdown, as unemployment rates go up and the number of immigrants coming into the country slows down. There is also the fear of a second wave of the pandemic hitting, and that could put a dampener on the market.

This commercial REIT on the TSX yields 6%

There are two REITs that have withstood the carnage of the second quarter of 2020. **First Capital REIT** (TSX:FCR) builds, rents, and sells mixed-use urban neighborhoods. It operates both in the residential and commercial segments in Canada's most populated cities like Toronto, Montreal, Vancouver, Edmonton, Calgary, and Ottawa.

Its properties are a perfect fit for large consumer businesses that are essential to neighborhoods. Grocery stores like **Loblaw** and **Metro**, medical, and professional services companies like Alberta Health Services and Allstate, pharmacies, and banks account for almost 50% of First Capital tenant list. This ensures that businesses and customers don't have to work too hard to find each other. In a post-pandemic era, this is a very useful business model.

The company has had a challenging second quarter in 2020 thanks to the COVID-19 pandemic. Revenues fell almost 15% compared to the second quarter of 2019 to $165.7 million. Funds from operations fell to $47.5 million from $70 million. Same-property net income fell to $77.4 million from $92.6 million — a drop of 16.5%,

The company collected 75% of rent due in the second quarter without accounting for deferrals or adjustments. When you include them, the percentage moves up to 93%.

Since mid-May, governments in these regions began lifting lockdown restrictions for non-essential businesses as well, and this was a big boost to the company's clients. As of August 5, approximately 96% of First Capital's tenants were open for business. With its major market, Toronto, entering stage-three opening in August, numbers for Q3 should be much better.

The stock trades at $14.32, and analysts have given it a target of $17.79. When you add the 6% forward dividend payout, First Capital makes for a good addition to your portfolio. It’s a good combination of the dividend yield plus capital appreciation.

A residential REIT giant

I had written about **Killam Apartment REIT** (TSX:KMP) in July when it was trading at $17.6. Today, it is trading at $18.08 with a price target of $20.61. Killam is a major player in the residential real estate space in Canada with a focus on Eastern Canada.

The company reported its numbers for Q2 of 2020. Net income fell by $61.3 million for Q2 2020, down to $21.5 million from $82.8 million in the prior-year quarter, due to higher fair-value gains on investment properties. Funds from operations increased to $26.6 million from $23.7 million in 2019. The company has collected 98.6% of rents due to it in the second quarter.

Killam has generated a net operating income of 33% from apartments built in the last 10 years. It has a forward dividend payout of 3.8%, and it is a good addition given its market-beating returns in the last decade.

Bottom line

Investing $10,000 each in the two TSX stocks will help you generate $975 in annual dividend income.

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