Become a Lazy Landlord: Buy These 2 High-Yielding REITs

Description

Real estate investment trusts (REITs) are income generators and producers of exceptional passive-income streams. In the 2020 pandemic, not all REITs are performing up to par. The hardest hit are in the retail and hospitality spaces.

However, grocery-anchored REITs are generally doing better and maintaining high rent collections. For would-be investors seeking to become lazy landlords, **Crombie** (TSX:CRR.UN) and **Choice Properties** (TSX:CHP.UN) are the top investment choices. The partnerships are with two giants in the food-retailing business.

With stable collections throughout the year, both REITs can afford to pay high dividends. Furthermore, growth prospects are bright considering the development pipelines. The completion of the projects could take a decade or more. In terms of potential earnings for mock landlords, the average dividend yield is a mouth-watering 6.25%.

Right markets

A host of retail REITs are struggling in the pandemic and experiencing weak rent collections. Crombie is not among those whose tenants are in the leisure and entertainment space like gyms, movie theatres, and restaurants, among others. This $2.1 billion REIT derives nearly 55% of rents from in-demand grocery stores like Sobeys and Safeway.

Investors have the advantage if the REIT has this tenant profile. Another plus factor for Crombie is the backing of **Empire**, a food retail conglomerate and parent company of Sobeys. Likewise, as of March 31, 2020, Crombie is the top REIT holding of the Canada Pension Plan Investment Board (CPPIB).

Crombie has a good redevelopment plan and excels in choosing the right real estate in the right markets. According to Donald Clow, Crombie's president and CEO, the REIT has a significant growth potential over the next 10 to 15 years. Income-wise, this real estate stock pays a hefty 6.7% dividend.

Strategic alliance

Choice Properties is one of Canada's largest REITs, with its market capitalization of $3.96 billion. Its high-quality portfolio consists of 724 income-producing assets with a mix of retail, industrial, office, and residential properties. While 80% of the assets are retail, the REIT is holding up well in the pandemic (-4.18% year to date).

The reason for the resiliency is the long-standing strategic alliance with **Loblaw**, one of Canada's largest supermarket chains. Loblaw is not only the principal tenant but the owner of half of the retail properties. Rent collections are high and stable because of the high demand for grocery stores.

Choice Properties should grow further 10 to 20 years down the road growth given the large development pipeline in mixed-use properties in key markets. Management is also diversifying into apartments and industrial leasing spaces. Currently, the dividend yield is a lucrative 5.8%, while the payout ratio is 71.6%. At $12.76 per share, you get value for money.

No fuss

When you own shares of Crombie or Choice Properties, you earn a portion of the rent generated by the REITs. The dividend yields are high and can potentially increase over time, as the value of the rental properties appreciates.

Investing in REITs is the best alternative to buying actual real estate. Besides, not everyone can afford to purchase investment properties. The cost is cheaper, and the cash outlay is not significant. You can own both stocks for less than $15 per share.

CATEGORY

1. Dividend Stocks
2. Investing

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