REIT Income: Are There Safe Dividends?

Description

Trying to generate REIT income is proving to be a tricky proposition in 2020. Many REITs have been forced to cut their dividends by figures as big as 50% over the course of the year.

Just a few weeks ago, I wrote about **RioCan REIT** (TSX:REI.UN), and how it could be due to join its peers in cutting its dividend. Alas, just a few days ago, the REIT announced a one-third slice in its dividend.

That brought its dividend down from around 8% to around 5.4% as of this writing. That's certainly a blow for those looking to generate REIT income going forward.

However, there are still reliable dividends out there for passive-income investors. Today, we'll look at some options for such REIT investors.

Choice

Choice Properties REIT (TSX:CHP.UN) is a large Canadian REIT that behaves uncharacteristically compared to its peers. While most REITs are usually accompanied by low margins, high payout ratios, and betas over one, Choice has exceptional margins, a very healthy payout ratio, and a beta of 0.50.

While these attributes don't tell the whole story, the overall point here is that Choice is definitely more stable than most of its peers in the REIT income space. This is largely due to its strategic partnership with Canadian grocer **Loblaw**.

The grocery and pharmacy giant is a critical tenant for Choice's properties, and has been critical in helping Choice maintain a solid source of cash flow this year. While the economy has been in flux, it's no secret that Loblaw has kept on ticking.

As of this writing, Choice is trading at $13.39 and yielding 5.53%. Its FFO payout ratio is very manageable and as such this dividend appears to be quite safe for REIT income investing.

If you're looking for a reliable way to enter the real estate market, this is a solid REIT. While it's focused on the retail space, the nature of its holdings are so different from most would consider a traditional retail-focused REIT.

RioCan's yield

Even after a one-third cut, RioCan's yield is still around 5.4%. That's not too far off where Choice's yield is sitting at the moment anyway, and Choice never made a cut. So, some investors might feel inclined to go with RioCan.

That said, we don't know if there could be further cuts in store for RioCan. Plus, we don't know how bumpy the ride will be going forward while waiting for the dividend to increase again. Generating solid REIT income from Choice isn't something completely guaranteed, but it seems quite a bit more stable than other options.

With all that said, with risk (hopefully) comes reward, so some investors might feel compelled to go one way or the other. However, the cuts seen across the board in the REIT space this year have probably woken up a lot of passive-income investors.

If you're looking for a dividend that might not be the juiciest but is dependable in the REIT sector, Choice is worth a good look.

REIT income strategy

REITs have long been useful for passive-income investors looking to gain exposure to the real estate market. With so many dividend cuts this year from many TSX REITs, some investors might seek safer options.

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Date
2025/08/15
Date Created
2020/12/09
Author
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