3 Canadian REITs for Safe Passive Income Every Month

Description

The novel coronavirus pandemic triggered greater volatility in the stock market than usual this year. It also disrupted the rental income of many real estate investment trusts (REITs). Some REITs couldn't defend their cash distributions this year and were forced to cut or eliminate them altogether.

A lot of retired and income investors hold REITs for income. Surely, if you want rental income from real estate, you could buy an exchange-traded fund like **iShares S&P/TSX Capped REIT Index ETF** and be done with it. But by investing in selective REITs, you can handpick the best of the bunch.

Here are quality REITs with the safest cash distributions for passive income every month.

Office REITs

Allied Properties REIT owns a portfolio of top-notch class I office properties. Of the 13.9 million square feet across 201 properties, 34% is in Toronto — about 11% of which is urban data centres. Principal users of the urban data centres include **Amazon**, **BCE**, and **Equinix**.

At $38.63 per share, Allied Properties yields approximately 4.3%, which is protected by a funds from operations (FFO) payout ratio of roughly 71%.

Industrial REIT

Granite REIT (TSX:GRT.UN) has approximately 108 income-producing logistics, warehouse, and industrial properties in North America and Europe across 45 million square feet.

About 67% is in North America (54% in the United States and 13% in Canada) and 33% in Europe — primarily in Germany (11 properties across 3.5 million square feet), Austria (11 properties across 8.1 million square feet), and the Netherlands (eight properties across 2.6 million square feet).

The portfolio has a weighted average lease term of almost six years, which should translate to a superstable cash flow. Granite REIT has increased its cash distribution for nine consecutive years. A portfolio occupancy of close to 99% is the norm for the industrial REIT.

At $78.01 per share, Granite REIT yields about 3.7% and has an FFO payout ratio of roughly 70%.

Residential REIT

Canadian Apartment Properties REIT (TSX:CAR.UN) has been defensive during this pandemic year. Its overall occupancy remained stable with an average rate of over 97%. As well, it also enjoyed same-property net operating income growth of roughly 4%.

CAPREIT manages more than 64,600 residential suites across Canada, the Netherlands, and Ireland. It's invested about 9% in Europe through its interests in **European Residential REIT** and Irish Residential REIT.

Its core focus is in Ontario, where 44% of its portfolio resides. Within the province, many of its assets are in the Greater Toronto Area.

Year to date, it was good to see that its Canadian portfolio actually experienced lower suite turnovers versus last year. At writing, the quality residential REIT trades at $50.70 per unit, providing a yield of 2.7% on an FFO payout ratio of about 58%.

The Foolish takeaway

If you buy an equal-weight portfolio in these three quality REITs, you'll get an average dividend yield of just over 3.5%. This pales in comparison to the 4.9% yield offered by the iShares S&P/TSX Capped REIT Index ETF.

Essentially, you'll be forgoing yield for quality, as you'll know that your capital is parked in the very best REITs for monthly rental income. You can pretty much buy the REITs at a good valuation and just sit on the investments with no management but the quick annual reviews.

According to analysts' average 12-month price targets, Allied Properties, Granite REIT, and CAPREIT, respectively, have 17%, 9%, 13% near-term upside potential. So, Allied and CAPREIT are slightly undervalued while Granite is about fairly valued.

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