2 Canadian REITs Paying Increased Dividends in 2021

Description

Canadian bond yields could remain low until 2023, as the Bank of Canada fights recessionary pressures from the COVID-19 pandemic. Investors are thus pressured to increase risk appetite in search of better yields in other asset classes in 2021 and beyond. Several high-yield dividend-paying stocks remain available for those looking to boost income while diversifying retirement portfolios in 2021. Among them, Canadian real estate investment trusts (REITs) continue to offer comparatively higher and dependable income yields while lowering portfolio risks this year.

REITs pay out the majority of their earnings to investors in the form of regular distributions to unitholders. Unless under extreme cash flow pressure, they rarely cut their payouts. However, most trusts don't regularly increase their annual distributions, unless they are highly confident about future cash flow reliability.

Therefore, a REIT that recently increased or regularly increases its distributions could be a must-have in an income portfolio. Such trusts usually enjoy growing unit prices for capital gains.

Here are two Canadian REITs that should pay increased distributions in 2021. Both are regular distribution growers.

CT Real Estate Investment Trust

CT REIT (TSX:CRT.UN) is the landlord to a growing **Canadian Tire** and an increasing number of tenants. The trust owns a growing portfolio of over 350 predominantly retail properties comprising 28 million square feet of gross leasable area (GLA) located across Canada.

CRT pays a regular monthly distribution around the 15th day of each month. After Monday's pullback, its current payout yields a respectable 5.25% annually. The REIT has a long history of increasing its distribution payouts. It increased distributions in each of the past seven consecutive years. Yet its distribution remains one of the safest among Canadian REITs with a 76.8% payout rate of adjusted funds from operations (AFFO) for the first nine months of 2020.

The trust usually increases its distributions in December or January of each year. However, trustees decided to make an early increase in September 2020. This was on top of another increase in January 2020.

Analysts expect the trust's AFFO per share to increase by 4.1% year over year to $1.43 in 2021. Given a three-year compound annual rate of increase in CT REIT's distribution of 3.4% and growing distributable funds from operations, investors wouldn't be too wrong to expect another regular increase in 2021.

Firm Capital Property Trust

Firm Capital Property Trust (TSXV:FCD.UN) is a small, growing, and diversified REIT. It owns a portfolio of 76 commercial properties comprising flex industrial, retail, core service provider space and has interests in two multi-residential properties with strong occupancy rates.

At the end of 2020, the $180 million market cap trust announced a 2% distribution increase for 2021. The raise shall be effective for the January distribution. The current yield stands at a juicy 8.2% today.

The latest distribution increase marked the eighth increase and in eight consecutive years. In total, Firm Capital Property Trust has increased its distribution per share by nearly 5% annually since 2012.

FCD's AFFO per share increased by 46% year on year during the first three quarters of 2020, and analysts expect it to increase by 5% annually this year. Although the AFFO payout rate during the nine months to Sept 30, 2020, was in the unsustainable range at 101% (compared to 106% in 2019), the payout looks very much safe at 97% if we exclude bad debts incurred when the trust reduced rentals for tenants in the Canada Emergency Commercial Rent Assistance (CECRA) program. Likewise, this adjusted AFFO payout rate falls from 90% in the third quarter to just 88% after excluding bad debts.

The trust's well-timed and aggressive unit-repurchase program during the 2020 market crash improved metrics significantly. Firm Capital Property Trust managed to repurchase units at $4.83 a unit, a significant discount to the net asset value at $7.28. The repurchase resulted in a $0.6 million increase in net cash for the trust due to reduced distribution payouts and increased remaining investor's interest in future cash flows from the trust. This should support future distribution growth.

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Date
2025/08/18
Date Created
2021/01/05
Author
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