Monthly Income Investors: 3 REITs for a 4.6% Yield

Description

Investors seeking monthly income should explore Canadian real estate investment trusts (REITs). Here are three REITs that provide monthly income by sharing the rental income they receive from their real estate portfolios.

Get monthly income from H&R REIT

H&R REIT (TSX:HR.UN) is a diversified REIT with office, retail, industrial, and residential properties. It reported resilient 2020 financial results despite a pandemic year.

Investors would notice that the REIT cut its cash distribution by half in May. This cut combined with its resilient FFO should protect its dividend going forward. Additionally, it could restore some of the cut cash distribution down the road when the macro environment improves.

Specifically, for 2020, H&R REIT reported funds from operations (FFO) per unit of $1.67, down only 5% year over year. Based on the more conservative adjusted FFO (AFFO) of $1.27 per unit, its payout ratio was 54%. Normally, its payout ratio is in the 70% range. Therefore, currently, it has a big margin of safety to protect its dividend.

The diversified REIT was also able to strengthen its financial position by increasing its liquidity to $1.1 billion of undrawn credit facilities.

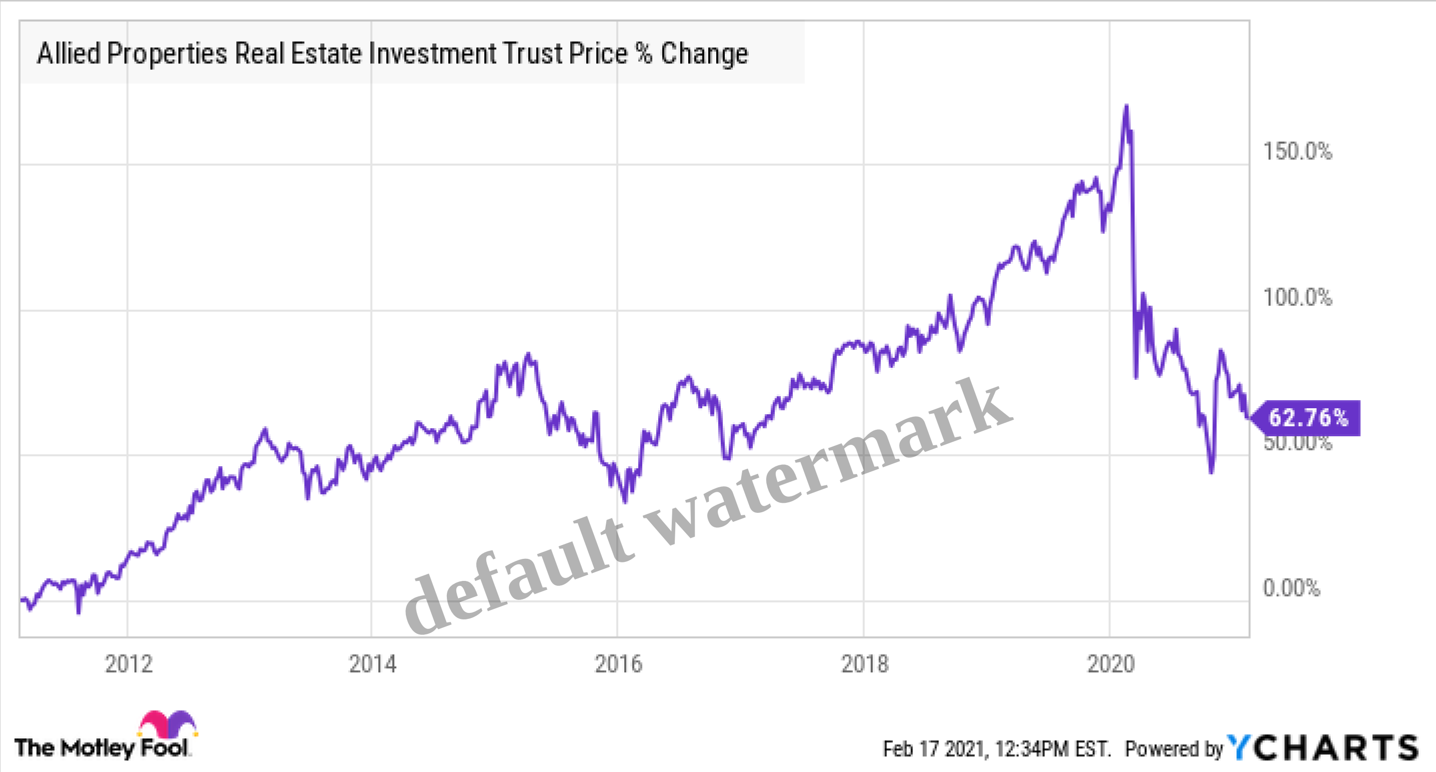
At $13.35 per unit at writing, H&R REIT yields nearly 5.2%.

Allied Properties REIT yields 4.7%

Allied Properties REIT (TSX:AP.UN) is an office REIT that operates urban workspace and data centres in major Canadian cities. Its 2020 financial results were even more resilient than H&R REIT. Therefore, the market commands a slightly lower yield on the monthly income stock.

Allied Properties REIT's monthly cash distribution is 3.05% higher than a year ago. This increase aligns with its dividend-growth rate of 2-4% every year since 2013. Consequently, the REIT earns its status as a Canadian Dividend Aristocrat.

In 2020, Allied Properties REIT reported a marginal decrease of 0.2% in FFO per unit, resulting in a payout ratio of about 71%. This aligns with its historical payout ratio. But it's good to see its AFFO climbed 2.1%.



AP.UN data by YCharts. The 10-year stock price change of AP.UN stock.

You'll notice the stock retreated about 38% from a high in 2020. For some reason, the stock was bid up to an outrageously expensive multiple before the World Health Organization announced that we were in a pandemic.

The monthly income stock simply reverted to the mean by falling to a reasonable valuation. In other words, the stock price decline had nothing to do with its business performance, which is doing fine.

At $36.10 per unit at writing, Allied Properties REIT yields nearly 4.7%.

Granite REIT yields 4%

Granite REIT (TSX:GRT.UN) is an industrial REIT that benefits from the e-commerce trend.

In late 2020, Granite REIT increased its cash distribution by 3.3%. Like Allied, Granite is also a Canadian Dividend Aristocrat that has increased its dividend for at least five consecutive years.

So far, the REIT has reported financial results for the first nine months of 2020. It reported FFO and AFFO-per-unit growth of 10% and 8%, respectively. Consequently, its recent payout ratio was 76%, based on the more conservative AFFO. Its AFFO payout ratio was 4% lower year over year, improving the margin of safety of its cash distribution.

Analysts think Granite REIT should be worth 13% higher 12 months from now. So, the REIT is a defensive name to consider for a monthly dividend that yields 4%.

Income tax on REIT distributions

Notably, REITs pay out cash distributions that are like dividends but are taxed differently. In non-registered accounts, the return of capital portion of the distribution is tax deferred until unitholders sell or their adjusted cost basis turns negative.

REIT distributions can also contain other income, capital gains, and foreign non-business income. Other income and foreign non-business income are taxed at your marginal tax rate, while capital gains are taxed at half your marginal tax rate.

Therefore, some investors like to hold their Canadian REITs in their TFSA, RRSP, RDSP, or RESP. When unsure of where best to hold REIT units, contact a tax professional.

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TICKERS GLOBAL

1. TSX:AP.UN (Allied Properties Real Estate Investment Trust)
2. TSX:GRT.UN (Granite Real Estate Investment Trust)
3. TSX:HR.UN (H&R Real Estate Investment Trust)

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