Property Investors: 2 Top REITs Are Your Best Rental Income Alternatives

Description

The impact of the COVID-19 pandemic is tragic, if not debilitating, to some sectors and industries. Life and everyday living are entirely different since mid-March 2020. The only sector that defied the carnage is Canada's housing market. Instead of dropping, real estate prices are soaring like crazy.

Now, the Canada Mortgage & Housing Corporation (CMHC) warns of the bubble bursting. Meanwhile, the Bank of Canada is looking for ways to calm the red-hot market across the country. The situation is perplexing that it could force the hands of the Feds to raise interest rates.

Consumer debt could rise to alarming levels if demand doesn't lessen due to the low-interest-rate environment. Higher interest rates could cool down the market and prevent speculators from driving prices higher. Regarding real estate investments, property investors should beware of inflated selling prices.

The best alternative to earn rental income is to invest in real estate investment trusts (REITs). Your cash outlay is less, and you eliminate the nuisances of owning rental properties at the same time. Besides the attractive dividend yields, the rental businesses of **Crombie** (TSX:CRR.UN) and **NorthWest Healthcare Properties** (TSX:NWH.UN) are stable as ever.

CPPIB stock

One thing going for Crombie is that it's the top real estate stock of the Canada Pension Plan Investment Board (CPPIB). The Canada Pension Plan (CPP) fund manager invests for the long term, so I would assume it views Crombie as an excellent long-term investment.

At $16.54 per share, the $2.61 billion REIT pays a handsome 5.44% dividend. The outstanding feature of Crombie is its predominantly grocery and pharmacy-anchored rental properties. More so, the defensiveness of its annual minimum rent (AMR) makes it all the more viable to would be investors.

In terms of revenue or rental collections, grocery and pharmacy-anchored properties (Safeway and Sobeys) account for 77% of total AMR. Nearly 68% of AMR are from essential services, while only 8%

are sourced from small business tenants. The last salient point to consider is that **Empire Company Limited**, one of Canada's largest food retailers, has a 40% ownership stake in Crombie.

Stable occupancy

NorthWest Healthcare Properties is among the most popular REITs during the global health crisis and for obvious reasons. The $2.54 billion REIT owns and operates around 190 high-quality, income-producing healthcare real estate properties. Hospitals, medical office buildings, and clinics form the core of the portfolio.

The only REIT in the cure sector is present and partners with established hospital operators in major markets. You can find the properties in Canada, Australia, Brazil, New Zealand, and Europe. Besides the stable occupancy rate, the lease contracts are mostly long-term.

NorthWest is still growing its healthcare infrastructure. It spent $620 million in 2020 to acquire 10 high-quality hospitals in the U.K. The total accretive acquisitions last year reached $998 million. One of the properties is a science building in Australia, the first of its kind in NorthWest's portfolio.

If you were to initiate a position in NorthWest today, the share price is $13.14. The dividend yield is an eye-popping 6.13%. A considerable investment should translate to a recurring, rental-like income.

Next-best alternatives

Canada's housing market is dangerously approaching a tipping point. Prices could plunge once the bubble bursts. Hence, property investors should beware and consider the next-best alternatives to earning rental income indirectly.

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2. TSX:NWH.UN (NorthWest Healthcare Properties Real Estate Investment Trust)

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