Passive Landlord: Get More Income From These Handpicked REIT Stocks

Description

Thinking of becoming a passive landlord with real estate investment trusts (REITs)? Here's a comparison of a popular Canadian REIT ETF **iShares S&P/TSX Capped REIT Index ETF** (TSX:XRE) and some handpicked Canadian REIT stocks.

The iShares S&P/TSX Capped REIT Index ETF has a management expense ratio of 0.61%, which is decently cheap. It provides diversified exposure to retail, residential, office, industrial, and healthcare real estate. It consists of 22 holdings. Its top five holdings are **Canadian Apartment Properties REIT** (15% of the fund), **RioCan REIT** (10%), **Allied Properties REIT** (8%), **Granite REIT** (8%), and **H&R REIT** (7%).

Should you invest in the REIT ETF Now? Maybe not

Two things might persuade passive landlords to stay away from the ETF currently.

First, the REIT ETF only yields about 2.2% based on the latest monthly distribution annualized. When investing in REITs, investors are more or less expecting a juicy monthly cash distribution. It doesn't provide that right now.

Second, about 32% of the fund is in retail REITs, 25% is in residential REITs, 19% is in industrial REITs, 10% is in office REITs, and 3% is in healthcare REITs. The big percentage in retail REITs could be a concern for investors, as there has been increased uncertainty in the industry over the years about lower demand for brick-and-mortar retail.

Pick your own REIT stocks

With commission-free trading platforms like Wealthsimple, investors can quickly become passive landlords by doing some initial active work and selectively investing in REIT stocks in their Tax-Free Savings Account.

You can expect persistent funds-from-operations (FFO) growth on a per-unit basis from Canadian Apartment Properties REIT. However, the residential REIT trades at an all-time high valuation (almost 27 times FFO) and only yields 2.2%. So, you might consider it when there's a market correction. During the pandemic market crash, the stock fell to about 19 times FFO.

RioCan REIT is a retail REIT that experienced setbacks last year. The REIT's FFO per unit fell about 14% last year. It provides a richer yield of 4.2% that should be sustainable with a payout ratio of about 62%.

Allied Properties is a quality office REIT that has proven stable cash flow. In 2020, its FFO per unit continued to increase marginally. The stock has rebounded, though, and provides no margin of safety. It does offer a safe yield of 3.7%.

You can be a passive landlord of industrial properties by investing in Granite REIT, which should continue enjoying above-average long-term growth from the e-commerce trend. The REIT is fairly valued and offers a 3.4% yield.

Diversified H&R REIT experienced pandemic setbacks. However, it consists of retail, residential, office, and industrial properties. So, it provides a more solid and diversified asset base for recovery than RioCan. H&R REIT almost yields 4.1%.

XRE ETF's only healthcare REIT is NorthWest Healthcare Properties REIT, which generates rental income from 186 medical office buildings, hospitals, and healthcare facilities around the world. Its weighted average lease expiry is 14 years, and it yields a juicy 6.1%.

The Foolish investor takeaway

By handpicking your own REIT stocks, passive landlords can roughly double the income the XRE ETF offers with Allied Properties, Granite REIT, H&R REIT, and NorthWest Healthcare Properties.

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kayng