1 Canadian REIT to Buy for Income in October 2021 and 1 to Avoid

Description

Real estate income is attractive. They're real assets producing stable cash flows. Here are some of the highest-yielding Canadian real estate investment trusts (REITs). Can you trust their big dividends?

Before anyone dings me on my use of the word *dividends* as a simplification for *cash distribution*, I should explain that REITs pay out cash distributions that are similar to but taxed differently than dividends. I'll explain more at the end.

First, let's hear the big-dividend REITs.

A healthcare properties REIT yielding 6.2%

NorthWest Healthcare Properties REIT's (TSX:NWH.UN) dividend is probably safe, even though its adjusted funds from operations (FFO) payout ratio is sort of high at about 87%. First, it has a large $8.3 billion asset portfolio across seven countries, including hospitals, healthcare facilities, and medical office buildings, diversified across 190 properties.

Second, its assets are largely essential. Therefore, the REIT has maintained high occupancies. Its recent occupancy is 96.7%. Third, its weighted average lease expiry is about 14 years. That's super long! Combining the long lease expiry with the embedded inflation escalations for more than three-quarters of its rents, NorthWest Healthcare Properties REIT's cash flows are set up to be very stable.

The dividend stock is just experiencing a pullback, which could be a great time to consider buying. At writing, it provides a yield of 6.2%.

Be careful with this retail REIT

Based in Toronto, Slate is a global alternative asset manager focused on real estate. The story goes that it entered the grocery-anchored real estate sector in the U.S. after the financial crisis and acquired decent real estate with quality tenants at discounted valuations.

Investors can invest specifically in **Slate Grocery REIT** (TSX:SGR.U) today. Its portfolio consists of about 106 properties totaling US$2 billion in assets across 23 states. It's important to point out that it owns and operates a U.S. retail real estate portfolio that is 98% anchored by grocery stores. Its top grocery tenants, including **Kroger** and **Walmart**, are no strangers to investors.

About 68% of the REIT's base rent comes from essential tenants, and about 39% come from grocery tenants. The idea is that grocery-anchored properties and retailers offering essential services drive foot traffic for the neighbouring retailers as well.

Slate Grocery REIT offers a high yield of almost 8.4% today. However, its recent adjusted FFO payout ratio of over 100% is a concern, as it could lead to a dividend cut if it gets a hit in its FFO. Other than the dividend cut risk, the dividend stock is also not cheap. Interested total-return investors could be smart to wait for a more attractive entry point at below $11 per unit.

REIT's cash distribution

In non-registered accounts, the return of capital portion of REIT cash distributions reduces the cost basis. The return of capital 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.

The Foolish investor takeaway

Between NorthWest Healthcare Properties REIT and Slate Grocery REIT, the former seems to be the safer option for high income. NWH.UN's stock and dividend have a better margin of safety for investors seeking high income this month.

CATEGORY

1. Dividend Stocks
2. Investing

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kayng