Passive-Income Investors: These 2 REITs Belong on Your Buy List

Description

Passive-income investors will find that real estate investment trusts (REITs) are the perfect investments for passive income. Unlike being a landlord, you don't need to fix leaky toilets or chase down tenants that tend to be late on their rent. You can buy REIT units, sit back, and watch the monthly income roll in — stress-free.

You can make a couple of simple checks to improve the safety of your passive income from REITs. First, check the stability of the cash flow. Second, check the payout ratio. Also, remember to check the valuation of the stock. The cheaper you manage to buy the units, the higher your effective yield will be. The last check doesn't improve the safety of your passive income, but it could boost your income, improve the safety of your principal, and boost your total returns.

Here are two REITs that you can trust for passive income. Consider placing them on your buy list.

NorthWest Healthcare Properties REIT

NorthWest Healthcare Properties REIT (TSX:NWH.UN) is a healthcare REIT with stable cash flow. It has a geographically diversified portfolio of medical office buildings, hospitals, and healthcare facilities across seven countries.

Because of the essential nature of the REIT's properties, its recent occupancy was high — close to 97%. Importantly, its cash flows are backed by long-term contracts with a weighted average lease expiry of approximately 14 years. More than three-quarters of its rent is indexed to inflation, which further secures the stability of its cash flow.

The healthcare REIT's normalized payout ratio is about 87%, which is reasonable. Combined with the stability of its cash flow, it should be able to keep its cash distribution yield of about 6% safe.

NorthWest Healthcare Properties REIT belongs in your passive income portfolio. The only deterrent right now is its valuation. It's fairly valued, which some investors might use as a justification to nibble some shares. However, the dividend stock does occasionally experience market corrections like during the pandemic, at which time it lost as much as half of its value. Of course, it was a super bargain for passive income then. Next time the healthcare REIT experiences a decline of 20-50%, back up the truck for some serious passive income!

SmartCentres REIT

SmartCentres REIT (TSX:SRU.UN) is a retail REIT with resilient cash flow, and it shows in its dividend history. It has sustained or increased its cash distribution every year since at least 2005. In other words, its cash distribution was safe during the recession in the global financial crisis as well as during the pandemic.

The retail REIT enjoys a high occupancy of about 97% across its 168-property portfolio. Moreover, about 73% of its portfolio is anchored by **Walmart**, which helps drive foot traffic to its properties. Management has identified 95 properties for intensification opportunities that can lead to growth. This year, its payout ratio is estimated to be sustainable at roughly 87%. So, its yield of approximately 6% should be safe.

SmartCentres is a good passive-income generator. Similar to NorthWest Healthcare Properties REIT, the retail REIT is fairly valued. It would be safer if passive-income investors can grab shares when the dividend stock is down during a market selloff.

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Date
2025/08/22
Date Created
2021/10/18
Author
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