2 Canadian REITs for Monthly Passive Income

Description

Real estate investing can be a cinch. Canadian real estate investment trusts (REITs) are a nice way to earn passive income. Their monthly cash distribution can be worked easily into your usual monthly income. People from all walks of life can use some extra monthly passive income from REITs.

Here are some Canadian REITs that are excellent choices for passive income.

CT REIT

CT REIT (TSX:CRT.UN) is a unique and high-quality Canadian retail REIT that has a strategic relationship with **Canadian Tire**. Roughly 79% of its occupancy is comprised of Canadian Tire and its other banners, and another 10% occupancy is industrial properties. Both posted top-notch 100% occupancy in 2020 during the pandemic. Additionally, about 96% of its annualized base minimum rent comes from investment-grade tenants. Canadian Tire was a resilient retailer during the pandemic, having an e-commerce strategy to complement its brick-and-mortar stores.

The REIT has an investment-grade S&P credit rating of BBB. It's also a relatively large REIT with a market cap of approximately $1.9 billion. Most importantly, CT REIT's monthly cash distribution is secure. It has been increasing its cash distribution for eight consecutive years since its initial public offering. Its five-year dividend-growth rate is roughly 3.6%.

Moreover, CT REIT is increasing its cash distribution sustainably at a slower rate than the growth of its adjusted funds from operations (AFFO). Its FFO payout ratio should be roughly 66% this year, while its AFFO payout ratio is estimated to be roughly 75% this year. Both are relatively low in the Canadian REIT world.

When comparing similar Canadian REITs, it's better to look at the FFO payout ratio, because each REIT calculates its AFFO differently. However, the AFFO is a better metric to look at when determining the safety of a REIT's cash distribution because it deducts recurring costs from the FFO.

In summary, CT REIT is a Canadian REIT you can trust for passive income. At $17 and change per unit at writing, it's reasonably priced with a safe yield of 4.8%.

H&R REIT

H&R REIT (TSX:HR.UN) is a diversified REIT with a mix of different assets in North America. By the fair value of its investment properties, it has 31% in retail, 38% in office, 8% in industrial, and 23% in residential properties. Geographically, it has 43% of its portfolio in the United States, 30% in Ontario, 18% in Alberta, and 9% in other Canadian provinces.

The REIT is relatively cheap compared to its Canadian REIT peers. It provides a solid 4.2% yield. Notably, its FFO and AFFO payout ratios were only about 44% and 56%, respectively, in the first half of the year. The big reason for the low payout ratios is that it cut its cash distribution during the pandemic.

The investment opportunity is that it has room to recover its cash distribution to higher levels, by which time it would have been re-priced to a higher, more normalized valuation.

The Foolish investor takeaway

It's a good idea to hold these Canadian REITs for monthly passive income inside TFSAs. This way, you can either grow your wealth with compounded returns or withdraw the monthly income tax-free for spending.

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2. Investing

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