Property Investors: Pivot to 3 REITs for Rental-Like Income

Description

Economists welcomed the start of the rate-hike campaign by the Bank of Canada early this month. Besides taming inflation, the increase in key interest rate could cool down the red-hot housing market. Price growth was unprecedented since the lifting of lockdowns in 2020 because of pent-up demand and record-low interest rates.

Ratehub.ca co-founder James Laird is sure that rising interest rates will have a "cooling effect" on home prices. However, some economists want the central bank to strike a tough balance with monetary policy tightening to prevent a market crash. For Michael Bourque, Canadian Real Estate Association (CREA) president, interest rate alone will not end the upward pressure on home prices.

Bourque said, "The supply of new homes is not even close to keeping up with demographic changes and population growth. With housing becoming a scarce asset, prices will continue to increase." Meanwhile, real estate investors are wary of buying properties at inflated prices.

Fortunately, earning rental-like income is possible without owning physical properties. You can be a mock landlord by investing in real estate investment trusts (REITs). REITs provide recurring income streams through the dividends paid out to shareholders. Also, the cash outlay is smaller compared to a direct investment in real estate.

Multi-use industrial assets

The industrial sub-sector is the among the top performers today. **Dream Industrial** (TSX:DIR.UN) benefits from the e-commerce boom. The $4.08 billion REIT owns, manages, and operates a portfolio of multi-use industrial assets (239). In 2021, net rental income and funds from operations increased 129% and 48%, respectively, versus 2020.

However, the year's highlight was the 204% year-over-year growth in net income to $608.34 million. Brian Pauls, Dream Industrial's CEO, said, "Dream Industrial achieved significant milestones during 2021 and is well positioned to outperform in 2022 and beyond."

The leasing momentum reflects in the stock performance. At $16.09 per share, the trailing one-year price return is 28.99%. If you invest today, the dividend yield is an attractive 4.38%.

Recovering sub-sector

Hotel operators like **American Hotel Income Properties** (TSX:HOT.UN), or AHIP, suffered serious business reversals in 2020 due to government-mandated lockdowns and social-distancing measures. However, the sub-sector seems to be on the recovery path in 2022.

The $326.69 million REIT owns and operates premium-branded, select-service hotels in secondary metropolitan markets in the United States. In 2021, cash flows from operating activities increased 527% to US$17.52 million versus 2020. Notably, the net loss dropped 82% year over year to US$11.86 million.

At $4.15 per share, current investors enjoy a 10.56% return. Also, AHIP resumed dividend payments after stopping them in 2020. The REIT pays a 5.55% dividend.

Specialty REIT

Automotive Properties (TSX:APR.UN) is an exciting option if you want a niche player in the real estate sector. This $712.16 million REIT is a landlord to income-producing automotive dealership properties in Canada. The dividend payouts are sustainable because of the strong fundamentals of the automotive retail industry.

In 2021, rental revenue increased slightly by 4.1% versus 2020, although net income soared 216.8% year over year to $85.41 million. At only $14.59 per share, the dividend offer is 5.49%. A $100,000 position will produce $5,490 in annual income, or $457.50 per month.

Dependable income sources

REITs are dependable income sources if buying investment properties is impractical due to overblown prices.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:APR.UN (Automotive Properties Real Estate Investment Trust)
2. TSX:DIR.UN (Dream Industrial REIT)
3. TSX:HOT.UN (American Hotel Income Properties REIT LP)

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Date
2025/07/17
Date Created
2022/03/30
Author
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