2 REITs That Could Give You $330 Cash Every Month

Description

Real estate is one of the popular investments for retirement planning. Some people bought property to enjoy rental income during retirement. But that comes with too much hassle as you, the landlord, are responsible for maintenance. REITs are more convenient, as they remove all the hassle and leave you with a monthly passive income. If you buy a house in Canada, you have to shell out an average of $816,000 (February 2022 data). If you invest one-10th of this amount in two REITs, you could earn $330 in passive income every month.

Investing in REITs

Investing is all about timing — the time you buy and sell a stock and the duration you hold the stock. REITs are long-term investments that give you income through capital appreciation, stock splits, dividend growth, and bonus shares. It is up to the management how they reward shareholders. Whenever you see an average return on investment, it factors in all the options and gives you a rough idea.

With REITs, you can earn dividends from the next month you invest in them. REITs pass on more than half their rental income to investors as dividends. Hence, they are not taxed by the Canada Revenue Agency (CRA).

How to earn $330 in monthly passive income from May onwards

A REIT's dividend depends on its rental income. Hence, invest in those REITs that have properties that command higher rents. I can think of two commercial properties like retail stores and offices, especially in urban areas like Toronto. Two REITs can give you exposure to such properties.

Allied Properties

Allied Properties REIT (TSX:AP.UN) has $10.4 billion worth of assets in urban areas. Its portfolio largely comprises offices and urban data centers and less than 15% in retail and parking spaces. It has 195 rental properties worth $8.4 billion and 11 properties under development. On March 31, it completed the purchase of six high-quality office properties in Toronto, Vancouver, and Montreal from **Choice Properties REIT**.

Why are these figures important? The REIT's properties will give you an idea about its potential to earn rental income. Allied has been doing well in the commercial space. It has regularly paid dividends since 2004 and increased them steadily, except for 2008-2012 due to the global financial crisis. However, it kept dividends steady during this time, showing its resilience to the economic crisis. Over the years, the REIT also gave capital appreciation of 340%. All this converted into a 14.4% annual return from 2004 to 2021.

However, the REIT still has a low occupancy rate of 89.9%, as it has not yet fully recovered from the pandemic. And the expected slowdown in the economy from rising interest rates and the Russia-Ukraine war could negatively impact the REIT in the short term. Its stock price has dipped 8.8% since mid-March.

This is a good opportunity to buy the stock at a dip and lock in a 3.97% dividend yield. A $40,750 investment in Allied Properties could give you around $135 a month in passive income plus capital appreciation and other returns.

SmartCentres

SmartCentres REIT (TSX:SRU.UN) has 283 properties, 178 (or 63%) for rental income, and 105 (or 37) for sale. Its properties are largely in retail space, and 70% of its occupancy is of essential retail stores. It earns 25% of its revenue from **Walmart** and a significant amount from Walmart-anchored stores. The REIT is also expanding into mixed-used commercial and residential properties that will help it increase the value of its existing retail stores. Like Allied, most of its properties are in urban areas like Toronto.

The REIT has been paying regular dividends since 2003. SmartCentres has recovered from the pandemic. Hence, the chance to benefit from the recovery rally is gone. But you can still lock in a 5.76% annual dividend yield. A $40,750 investment in SmartCentres could give you around $195.6 a month in passive income plus capital appreciation and other returns.

REIT tips

The combined income of the two REITs is $330 per month from an $81,500 investment. But remember, you have to show dividends as a taxable income. However, you can avoid taxes by investing in REITs through the Tax-Free Savings Account (TFSA). The TFSA has a lump sum limit of $81,500 in 2022 if you have never contributed to it.

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pujatayal