



The 3 Best REITs Under \$10 That Pay Distributions Over 6%

Description

REITs make [real estate investing](#) accessible to stock market investors. They enjoy special status and face no corporate tax, as they distribute a significant portion of their rental income as distributions to investors. Moreover, they also share any capital gains from the sale of property or interest earned on mortgages. Hence, they have high annual distribution rates.

But remember, the income on REIT is taxed differently than other stocks. Moreover, if the REIT has properties outside Canada, there is a different tax. Hence, it is advisable to invest in Canadian REITs through a Tax-Free Savings Account ([TFSA](#)). The TFSA exempts income tax and capital gains tax, making the REIT distribution tax free.

Three Canadian REITs under \$10

There are different REITs depending on the type of property they invest in: industrial, residential, office, retail, healthcare, hotel, or diversified. Among these properties, office and retail earn a higher rental income, while [residential](#) has lower rental income, as the government puts a cap on rent. As Canada's [inflation](#) rate is at its 31-year high of 6.7%, you need a REIT that can combat this inflation.

Here are three commercial REITs that could give you more than 6% in passive income:

- **Slate Office REIT** (TSX:SOT.UN): 7.7%
- **BTB REIT** ([TSX:BTB.UN](#)): 7.0%
- **Melcor REIT** ([TSX:MR.UN](#)): 6.7%

Slate Office

Founded in 2012, Slate Office REIT has 55 office properties, 30 in Canada, 23 in Ireland, and two in the United States. Ireland is a tax-haven country, and Canada has a special treaty with the United States that gives you tax benefits. So, you need not worry about tax implications from the foreign property. Like Melcor, Slate also has a history of paying regular monthly distributions since 2013. And it

was only in 2019 that Slate slashed the distribution. Its price also fell 46% during the pandemic and is still trading 13% below the pre-pandemic level.

However, a 7.77% distribution yield rewards you for the risks. Slate Office is trading a little above \$5 and has a market cap of \$439.3 million and good liquidity.

BTB REIT

Founded in 2005, BTB owns and manages 75 properties spread across the mid-market office (47%), retail (23%), and industrial (30%). Most of its properties are in Montreal and Quebec City, which do not have rent as high as Toronto. Moreover, BTB has a high leverage ratio of 60.5%, which makes it a higher-risk REIT.

It has been paying stable regular monthly distributions since 2015 and cut its dividend in June 2020 in the wake of the pandemic. However, it rewards investors with a 7.06% distribution yield. The REIT is trading below \$5 and has a market capitalization of \$360 million.

Melcor REIT

Founded in 2013, Melcor is an unincorporated, open-ended REIT that acquires, manages, and leases office (50%), retail (43%), and industrial (6%) properties in Western Canada. This REIT is a spin-off from **Melcor Developments**, a 98-year-old real estate company. The REIT has an advantage as it gets the first offer to lease commercial properties developed by Melcor. Since its IPO, the REIT has been paying stable regular monthly distributions. But it cut its dividend by 47% in May 2020, as the pandemic significantly impacted office properties. The REIT price fell 64% during the March 2020 dip.

But Melcor is seeing recovery as people return to work. It has increased its monthly distributions twice, 17% and 14%, in the last 15 months. The REIT stock price surged 140% from the March 2020 dip and is still down 16% from its pre-pandemic level. It is trading below \$7.5 and has a market capitalization of \$208.3 million.

A word of caution

Although REITs are lower-risk investments than growth stocks, the above REITs carry high risk, as they are small-cap stocks with lower liquidity. Hence, invest only 8-10% of your portfolio in them to hedge your returns against short-term inflation.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:BTB.UN (BTB Real Estate Investment Trust)
2. TSX:MR.UN (Melcor Real Estate Investment Trust)
3. TSX:RPR.UN (Ravelin Properties REIT)

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Date

2025/08/16

Date Created

2022/04/22

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