2 REITs for Passive Income

Description

REIT prices are off their 2022 highs. Investors seeking to boost their real estate exposure have some interesting picks right now for a portfolio focused on passive income.

SmartCentres REIT

SmartCentres (TSX:SRU.UN) is one of Canada's largest fully integrated REITs with a market capitalization of $4.3 billion. The company has $11.3 billion in real estate assets that includes 174 properties located across Canada. The portfolio covers 34.1 million square feet of retail space with 97.6% occupancy.

Looking ahead, management intends to invest in mixed-used developments that leverage the potential of existing properties in strategic locations. Project 512 is a $15.2 billion intensification program, of which $9.8 billion is attributed to SmartCentres. The projects consist of rental apartments condos, seniors homes, and hotels developed under the SmartLiving brand. In addition, the company is building retail, office, and storage sites developed under the current SmartCentres name. Once completed, Project 512 will add 58.6 million square feet of space. Almost half will be under construction in the next five years.

SmartCentres had a payout ratio of 85.8% for calendar 2021. The current annualized distribution of $1.85 per unit provides a yield of 6.1%. The unit price is close to $30 at the time of writing. That's down from the 2022 high around $33.50.

RioCan Real Estate Investment Trust

RioCan (TSX:REI.UN) is another REIT focused on the retail market with shopping malls and mixed-use developments primarily located in Vancouver, Calgary, Edmonton, the GTA, Ottawa, and Montreal.

RioCan has a current market capitalization of $7 billion at the time of writing, making it one of the largest REITs in Canada.

The company finished 2021 with 207 properties and 36 million square feet of leasable space. Occupancy at the end of the year was 96.8% with 85% of the revenue coming from strong and stable tenants.

The development pipeline is 100% located in the six major markets with 76% of the investments focused on the GTA. RioCan is targeting demand for high-quality rental housing located along key urban transit lines. In fact, 83% of the development opportunities are residential and 70% are situated on transit routes.

In the next two years RioCan expects to complete 1.7 million square feet of new rental space generating more than $56 million of incremental cash.

RioCan is targeting a funds flow payout ratio of 55-65% for 2022. The board raised the monthly distribution from $0.08 to $0.085 per unit earlier this year after slashing the previous payout of $0.12 per unit during the pandemic.

At the time of writing, RioCan trades for $23 compared to the 2022 high of $26. The current distribution yield is 4.4%.

Is one a better bet?

SmartCentres and RioCan pay attractive distributions. The two companies have strong development pipelines in place to drive revenue growth in the coming years. SmartCentres offers a higher yield right now but likely comes with more risk due to the higher payout ratio.

If you are searching for retail real estate exposure and monthly income, I would probably split a new investment between the two REITs today.

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