Income Investors: 2 Canadian REITs With Yields of 5%. Which Is Better?

Description

Canadian real estate investment trusts (REITs) are great sources of income, especially since most pay monthly cash distributions, as do the REITs discussed here. Similar to other companies, though, REITs are faced with higher inflation, higher labour costs, and rising interest rates today. After reviewing both stocks, one appears to be a better buy for a yield of roughly 5%.

Chartwell Retirement Residences

Normally, seniors housing is a pretty good place to find cash cows. The COVID-19 pandemic shook the fundamentals of **Chartwell Retirement Residences** (TSX:CSH.UN). What's most obvious is the Canadian REIT's cash flow reduction in 2020 and 2021. So far, management has maintained its monthly cash distribution, which it knows is important to its unitholders.

For the first quarter, Chartwell experienced a 2.4% decline in the weighted average occupancy in its retirement same-property portfolio to 76.5% versus 78.9% a year ago because of "lower move-in activity as a result of the pandemic," as explained in its Q1 release.

Light is coming up at the end of the tunnel. Management expects occupancy to improve this month. The company results could stabilize as soon as this year. In the first quarter, Chartwell saw a marginal improvement in its resident revenue. Unfortunately, its property operating expense increased at a higher rate, no thanks to the pandemic, higher inflation, and higher labour costs.

Chartwell's financial position appears to be worse than before. At the end of Q1, it had liquidity of $374.8 million, including $160.0 of cash and cash equivalents. Its interest coverage ratio was 2.6 times versus 2.8 times a year ago. And its net debt to adjusted EBITDA ratio was 10.4 versus 9.9.

The stock dipped 12% from its 52-week high and currently offers a juicy yield of just over 5%. Cash distribution growth can potentially resume between 2023 and 2024.

Let's move on to **Dream Industrial REIT** (TSX:DIR.UN) that offers a similar yield but a better margin of safety in multiple ways.

Dream Industrial REIT

First, Dream Industrial REIT offers a bigger margin of safety for its cash distribution. Second, it provides better safety for investors' money today, because the stock appears to be more attractively valued. Third, the REIT also has a better financial position.

At about $14 per unit at writing, the dividend stock trades at a decent discount of about 24% from the analyst consensus price target. Its funds-from-operations (FFO) payout ratio is estimated to be approximately 79% this year, and its FFO growth rate is expected to be in the high single digits in the foreseeable future.

The general operating environment is simply better in the industrial REIT industry. For the first quarter, the Canadian REIT increased its net operating income by 40% to $65.3 million. FFO growth was 62% year over year to $56.6 million, while it increased 16% to $0.22 on a per-unit basis. Its in-place occupancy at the end of Q1 was 97.6%, which was an improvement of 1.9% compared to a year ago.

Organic growth is strong as Dream Industrial REIT "has signed approximately 2.8 million square feet of renewals and new leases across its portfolio since the beginning of the year, at an average rental spread of 21.3% over prior or expiring rents," as pointed out in its Q1 release.

The Canadian REIT enjoys an investment-grade rating of BBB from DBRS. At the end of Q1, its net debt to total assets ratio was 25.8% versus 28.7% a year ago. And its interest coverage ratio was 10.4 times versus 4.8 times.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CSH.UN (Chartwell Retirement Residences)
2. TSX:DIR.UN (Dream Industrial REIT)

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