Grab Passive Income of up to 6% From 2 Canadian REITs

Description

Rising interest rates are providing a buying opportunity for passive income in Canadian REITs. Inflation has hit a 31-year high, making our cost of living more costly. To combat the sky-high inflation, the Bank of Canada has been raising the benchmark interest rate. In fact, some pundits believe we're in for some rapid rate increases this year, which can further pressure Canadian REITs that typically have large debt in mortgages. Rising interest rates don't translate to higher mortgage rates immediately. The weighted average interest rates experienced by REITs are still quite low.

Our wage increases won't be able to keep up with the high inflation, but not all is lost. You can earn high passive income from falling REIT stocks. Here are a couple that offer big income today in the form of monthly cash distributions.

NorthWest Healthcare Properties REIT

Other than offering a rich cash distribution yield of just over 6.2% at writing, **NorthWest Healthcare Properties REIT** (TSX:NWH.UN) also exposes investors to a quality portfolio of healthcare real estate properties.

Over the years, besides from expanding domestically, the healthcare REIT has also extended its tentacles to Australia, New Zealand, Brazil, Germany, the Netherlands, the U.K., and the U.S. across hospitals, other healthcare facilities, and medical office buildings.

The defensive REIT has very long contracts (about 14 years) and a high occupancy of about 97% that allow it to generate very stable cash flows. In fact, its core portfolio is indexed to inflation and embedded with annual rent growth, which should benefit from a high inflationary environment. The REIT's trailing-12-month (TTM) interest expense is 18% lower than it was in 2019.

Furthermore, management sees its project pipeline expanding with a potential value of $2.5 billion, which could be a meaningful addition to its total assets of about $10.3 billion.

Dream Industrial REIT

Passive-income investors can further diversify their income stream with **Dream Industrial REIT** (TSX:DIR.UN), which primarily consists of distribution and urban logistics properties. The correction of close to 24% in the stock makes it a decently attractive buy for income. At $13.38 per unit at writing, the industrial REIT is good for a yield of 5.2%.

The selloff may be due to rising rates, but the REIT's TTM interest expense actually reduced 29% versus 2019 because of its lower rate exposure in Europe (Germany, France, the Netherlands, Spain, Czech Republic, and Slovakia). If you expect the e-commerce trend to continue, Dream Industrial should continue to do well long term, given its exposure to multiple geographies, including Canada and the United States. Indeed, its demand has remained strong, as suggested by its high committed occupancy of close to 99% and its outlook on higher mark-to-market rental rates.

Both REITs are trading at good discounts, but Dream Industrial REIT appears to be cheaper. Investors should also note that Canadian REIT cash distributions are taxed differently from dividends depending on their components. The return of capital is tax-deferred income that reduces your cost basis and is ultimately taxed like capital gains. Other income and foreign income are taxed at your marginal tax rate, while capital gains are taxed at half your marginal tax rate. REITs that typically have a high portion of tax-deferred cash distribution may be better held in taxable accounts for passive income. Speak with a financial advisor if you have questions.

The selloff in these REITs may not be over. However, we will get to a point where they become too cheap to ignore. Surely, the passive income they provide is already quite compelling.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:DIR.UN (Dream Industrial REIT)
2. TSX:NWH.UN (NorthWest Healthcare Properties Real Estate Investment Trust)

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