Attention Canada: It's Time to Buy These REITs in Your TFSA

Description

Rent or mortgage is the biggest expense in an average Canadian's monthly budget. Investors like to be on the receiving side of rent rather than the paying side. If you are looking to invest in real estate to earn rent, there is a cost-effective way of doing so. REITs earn you rental yields without the hassle of operating and maintaining a property.

Why choose REITs over real estate in a recession?

The concept of REIT became popular during the early 2000s, which institutionalized real estate. Builders and developers create an investment trust that takes care of developing and leasing properties. REITs look to rent out the property to tenants with high creditworthiness and longer lease duration. This ensures regular cash flow. You can also think of REITs as institutional landlords, as they perform all the duties of one.

REITs grow their businesses by developing new properties in different regions, ensuring higher occupancy of existing properties, rent collection, and lease renewal. They also sell some of their properties and earn from capital gains. They enjoy the tax status of a trust as they share a significant portion of the income, both rental and capital appreciation, with the shareholders. Hence, yields from REITs are called distributions and not dividends. REIT distributions are monthly and are taxed differently. But you can avoid tax by investing in REITs through the Tax-Free Savings Account (TFSA).

With REITs, you get the income benefit without bearing the maintenance cost. It makes real estate affordable as one unit of a REIT is available for between $5 and $50.

Three REITs to invest in through your TFSA

Rental yield depends on factors such as property type, geographical location, and inflation.Commercial and retail properties earn a higher rent than residential properties. Each of theseproperties is affected by different macro factors. You can diversify your property exposure with REITsand make the most of real estate investing.

- **SmartCentres REIT** (TSX:SRU.UN): 6.77%
- **True North Commercial REIT** (TSX:TNT.UN): 9.37%
- **Morguard North American Residential REIT** (TSX:MRG.UN): 4.29%

Retail property

Retail stores attract a high rent, especially if they are in the Greater Toronto Area. SmartCentres REIT has 174 properties strategically located across Canada, with a majority located in Ontario. SmartCentres is developing commercial and residential properties around its retail stores to enhance their value.

The REIT's strength is its largest tenant, **Walmart**, which has a five-year contract and accounts for 25% of SmartCentres's rental income. Walmart attracts other retail stores as well. The REIT earns over 60% of its revenue from strong creditworthy, essential services tenants. Hence, it was able to sustain the 2009 and 2020 crises without distribution cuts.

The REIT has been paying monthly distributions since 2003, increasing them at infrequent intervals depending on the retail industry's metrics. It can survive the upcoming stagflation while giving you regular monthly income.

Commercial property

Other than retail stores, offices also command high rent. True North Commercial REIT is a pure-play commercial REIT with 46 properties across Canada. While it is a significantly smaller REIT than SmartCentres, it has central and state governments as tenants. The government offices constitute 35% rent of True North. It earns another 41% rent from high creditworthy companies. Such a strong tenant base helped True North survive the pandemic without distribution cuts.

With a 96% occupancy rate and a 4.3 weighted average lease term, True North is well placed to sustain an economic crisis while paying regular monthly distribution as it has been doing since 2013.

Residential property

Morguard is a real estate company that provides everything from real property investing to REITs to real estate advisory. Its residential REIT arm has 43 multi-suite residential properties in the United States and Canada. Residential REITs earn a lower rental yield. But the recent market correction in house prices due to high-interest rates has put the REIT in the oversold category. Its stock price fell 20% from its March high and increased its distribution yield to 4.29%.

The slowdown in house price growth won’t affect rental income, which means Morguard can continue paying a regular distribution, as it has been since 2012.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:MRG.UN (Morguard North American Residential Real Estate Investment Trust)
2. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)
3. TSX:TNT.UN (True North Commercial Real Estate Investment Trust)

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