Be a Landlord: Top 2 REITs (With Monthly Dividends) I'd Buy and Forget

Description

Buying a property is becoming more and more impossible with every passing year. Houses and offices keep getting smaller while the price per square foot keeps growing. Owning a house is a hassle, and owning a property for investment purposes is a far-fetched dream for the average Canadian. Many Canadians dream of being a landlord and living off the rental income. This is now possible with REITs.

Life of a landlord

Being a landlord is no cakewalk. Sure, owning property can fetch you income for the rest of your life through rent and capital appreciation. But it also has its risks, like depreciation due to natural or manmade disasters, property renovations, and tenant issues.

Working out the variables as an individual landlord is tiresome and prone to a number of errors. The concept of a REIT came into being to help retail investors get exposure to property prices, and investment trusts get the capital to build these properties. Here are two top REITs that have worked out the math and created a winning combination of prime location properties, strong tenant bases, and credit risk management.

SmartCentres REIT

Wouldn't it be nice to have a property in the Greater Toronto Area, the land of countless attractions, events, parks, markets, and shopping spots? You can get exposure to rental income and property prices in that area for just $30.1 per share of **SmartCentres REIT** (TSX:SRU.UN).

SmartCentres has 174 properties, of which 93 are marked for intensification. This means that the REIT is building residences, offices, hotels, and storage facilities to intensify the value of its retail stores and attract big companies to lease property. Currently, SmartCentres is heavily dependent on **Walmart**. It earns 25% of its rental income directly from Walmart, and a significant portion from Walmart-anchored stores.

It's pretty risky to be dependent on one tenant. But the lease is for five years, which means its distributions are secure until then. This also gives SmartCentres enough time to complete some of its intensification projects while adding stickiness to its properties. The REIT distributed 89% of its cash flow to shareholders in 2021. Despite a higher payout ratio, it has maintained its interest coverage ratio of 3.5x, which means its operating earnings are sufficient to pay interest.

This REIT used the pandemic's near-zero interest rate to take on more debt for the funding of property development. Hence its adjusted debt to adjusted EBITDA (earnings before interest, taxes, depreciation, and amortization) ratio increased to 9.4x from 8x in December 2019, while its weighted average interest rate fell to 3.09% from 3.75%. A well-balanced debt, rental income, and upcoming projects make SmartCentres worthy of an investment.

True North Commercial REIT

You can mitigate the risks associated with SmartCentres by diversifying your REIT portfolio into different types of properties. In addition to retail-focused REITs, the next high-income option to consider is **True North Commercial REIT** (TSX:TNT.UN). It's a pure-play commercial property REIT that earns rental income from 46 properties across five Canadian provinces.

True North earns 13.7% of its rental income from the Federal Government of Canada and 9.9% from the Province of Alberta. A good mix of government and credit-rated tenants has helped it pay stable distributions since 2013. The REIT has a strong balance sheet with a 3.09x interest coverage ratio and a weighted average interest rate of 3.32%. This shows that its current operating income is sufficient to service the debt and pay distributions.

How to make money from REITs

Something to consider is that SmartCentres is a large cap stock with a 6.2% annual distribution yield. True North, on the other hand, is a small-cap stock with a 9.4% annual distribution yield. Small-cap stocks are riskier as they face strong competition from large players and have lower trading volume. Moreover, small-cap stocks don't attract many institutional investors. But, the high distribution yield compensates for the risk that comes with it.

A good strategy is to combine a small-cap stock with a large-cap stock as per your risk profile and get rewarded accordingly.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)
2. TSX:TNT.UN (True North Commercial Real Estate Investment Trust)

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