2 Stocks to Invest in U.S. Real Estate

Description

Are you strapped for cash? Canadians can diversify their real estate investments to south of the border. You can start earning passive income immediately from U.S. real estate investment trusts (REITs) that tend to have big dividends, because they must pay out at least 90% of their taxable income as dividends.

Discounted but quality U.S. REIT for a 5.3% yield

In most economies, **STORE Capital** (NYSE:STOR) generates stable and growing funds from operations (FFO). The U.S. REIT ended second quarter with a high occupancy rate of 99.5% and a weighted average remaining lease term of 13 years.

As a net-lease REIT, its tenants are responsible for paying property taxes, insurance, and maintenance. Moreover, 64% of its 3,012-property portfolio are in service industries that encourage customers to revisit. Its FFO per share rarely drops. It did (by 8%) in 2020 due to temporary economic shutdowns. By all means, that's not a huge drop.

The dividend stock has delivered as a REIT since it started trading publicly in 2014. That is, it has increased its dividend healthily every year. For example, its dividend-growth rate compounded at close to 5.9% annually over the past five years.

Right now, STORE Capital is undervalued by about 20% from its longer-term normal valuation. The stock yields about 5.3%. Assuming an FFO growth rate of 5%, approximated returns would be north of 10% without any valuation expansion. Investors can also look forward to the REIT increasing its dividend by 5%, more or less, next month.

There's good reason to believe that the REIT will grow its FFO, which is an important metric that REIT payout ratios are based on, much like earnings for companies. STORE Capital's 2021 FFO payout ratio was 73%, which aligns with its historical range. Furthermore, it has inflation escalations for its leases that can help drive growth.

Another undervalued U.S. REIT for big dividend income

Most of **Medical Properties's** (NYSE:MPW) portfolio of hospitals are in the U.S. but it's also invested in other geographies, including the U.K., Switzerland, Germany, and Australia, among others. Higher interest rates are a dampener on growth for REITs, but Medical Properties has demonstrated its ability to keep its FFO per share stable and steadily growing since 2011.

The value REIT trades at a decent discount of close to 28% from its normal valuation. However, a part of the discount is due to slower expected growth. Should interest rates plateau or even come down a bit at some point, it could be a catalyst for valuation expansion.

In the meantime, the healthcare REIT pays investors well to wait. It offers a high yield of 6.9% on a FFO payout ratio of about 64%.

Earn U.S. dividends in your RRSP/RRIF

Because U.S. dividends are foreign dividends, they are taxed at Canadian investors' marginal tax rates if earned in non-registered accounts. In non-retirement accounts, there's a 15% foreign withholding tax on the dividend that cannot be avoided, even in the Tax-Free Savings Account. To get the full U.S. dividend, hold U.S. REITs in your Registered Retirement Savings Plan or Registered Retirement Income Fund. Consult a qualified tax professional or financial advisor if you need help figuring out the best place to hold your U.S. REITs.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:MPW (Medical Properties Trust, Inc.)
2. NYSE:STOR (Store Capital)

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