



## Canadian REITs: A Great Way to Increase Your Monthly Income

### Description

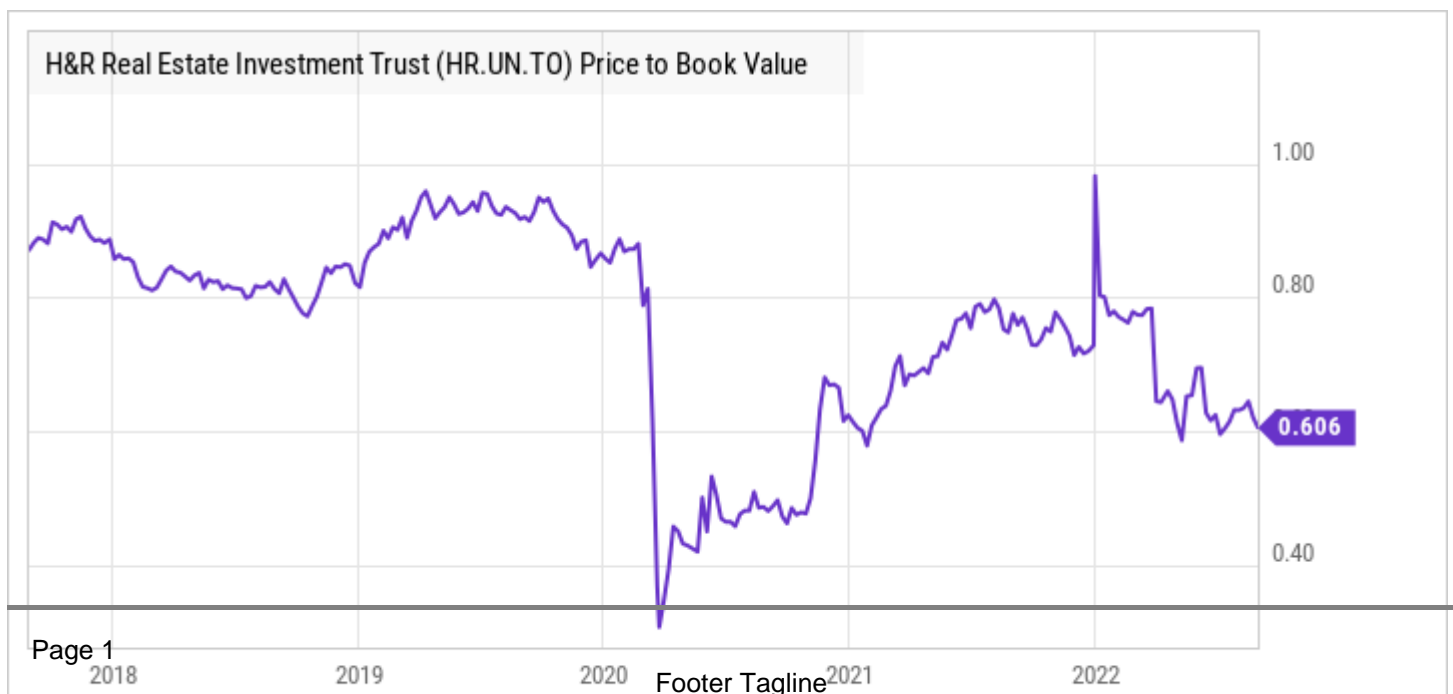
One of the most beautiful things in the world is being able to generate regular income without lifting a finger. You can increase your passive monthly income immediately by investing in Canadian real estate investment trusts (REITs).

Here are some names that offer safe cash distributions.

### H&R REIT

Diversified REIT **H&R REIT** ([TSX:HR.UN](#)) is under a five-year transformation. It's heading towards focusing on residential and industrial real estate. Those are good places to be in for stability and growth, respectively.

Because there's much work left in the transformation, the REIT currently trades at a substantial discount to its book value. Although it's not as cheap as in the pandemic market crash bottom, it still offers a massive discount of close to 40%. The market is demanding this discount because there will be a lot of turnover in its real estate portfolio over the medium term.



HR.UN Price to Book Value data by YCharts

The REIT offers a yield of 4.3% on a relatively low payout ratio of approximately 47%. Again, this low ratio provides a big cushion for its portfolio changes.

Should the REIT's conversion be successful, it could experience valuation expansion from the change in the mix of its portfolio. Its recent net asset value (NAV) is \$22.14 per unit. Targeting 90% of its book value, the stock has a target price that's about 56% higher from current levels. As investors patiently wait for the transformation, they can collect decent monthly income.

For more certainty and even higher income, Canadian investors can consider the following [Canadian REIT](#).

## NorthWest Healthcare Properties REIT

Although both companies discussed today are REITs, **NorthWest Healthcare Properties REIT** ([TSX:NWH.UN](#)) takes on a markedly different approach than H&R REIT. NorthWest Healthcare Properties REIT is a global healthcare REIT that has acquisition opportunities from around the world. So far, its \$10.2 billion real estate portfolio encompasses 232 properties. Its portfolio is clearly diversified, earning rental income from over 2,100 tenants across eight countries.

NorthWest Healthcare Properties REIT's yield of over 6.3% appeals to income investors. Because its tenants are hospitals, other healthcare facilities, or medical office buildings, the Canadian REIT enjoys a high occupancy rate of about 97%. Its cash flows further improve in quality with 82% indexed to inflation and having a weighted average lease expiry of about 14 years.

Its recent NAV is \$14.19 per unit. At \$12.62 per unit at writing, the stock trades at a discount of 11%. Due to its real estate portfolio having low uncertainty in valuation and cash flow generation, it's reasonable the market demands a smaller discount from NWH.UN stock versus HR.UN stock.

## Income tax on Canadian REIT cash distributions

Canadian REITs pay out cash distributions that are like dividends but are taxed differently. In non-registered accounts, the return of capital portion of the distribution reduces the cost basis. The return of capital is tax deferred until unitholders sell or their adjusted cost basis turns negative.

REIT distributions can also contain other income, capital gains, and foreign non-business income. Other income and foreign non-business income are taxed at your marginal tax rate, while half of your capital gains are taxed at your marginal tax rate. If you hold REITs inside tax-advantaged accounts like a TFSA, RRSP, RDSP, or RESP, then you can sidestep the above complexity. When unsure of where best to hold REIT units, discuss that with a financial advisor.

## Food for thought

While Canadian REITs can be a great way to increase your monthly income. It goes to show that due diligence is required if you want to really sit back and earn passive income after you purchase your REIT units.

## CATEGORY

1. Dividend Stocks
2. Investing

## TICKERS GLOBAL

1. TSX:HR.UN (H&R Real Estate Investment Trust)
2. TSX:NWH.UN (NorthWest Healthcare Properties Real Estate Investment Trust)

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