2 Cheap Canadian REIT ETFs That Yield More Than 3%

Description

Real estate investment trusts (REITs) are great for diversifying a traditional stocks/bonds/cash portfolio. As a pool of real estate assets trading on a stock exchange, REITs offer liquidity, monthly income, and potential for capital growth. They can be a great way of gaining real estate exposure without coughing up the dough and time for a rental property.

The TSX is filled with fantastic REITs of all types, including office, retail, industrial, residential, healthcare, etc. However, choosing the best one can be overwhelming. My suggestion is to get started with a REIT exchange-traded fund (ETF).

These ETFs give you instant access to a passively managed portfolio of REITs at a low cost. You can make this the core of your REIT allocation and then pick some individual REITs once you're more familiar with REIT investing in Canada. Let's take a look at my top picks!

The Vanguard option

Vanguard FTSE Canadian Capped REIT Index ETF (TSX:VRE) tracks a portfolio of 18 REITs and real estate services companies. It spans large-, mid-, and small-cap stocks and imposes a 25% cap on each of its holdings, so no single stock can dominate the index.

In terms of composition, VRE is mostly retail (22.4%), industrial (16.8%), residential (15.2%), and office (14.5%) REITs. Real estate service companies make up around 17.1% of the fund. Overall, VRE offers fairly balanced exposure to the Canadian REIT sector.

Most investors buy REITs for the monthly income potential. Currently, the 12-month trailing yield stands at 3.47%, which is what an investor would have received if they'd invested since last year. This is significantly higher than the average index fund and rivals some dividend stocks.

In terms of fees, VRE will cost investors an annual management expense ratio (MER) of 0.38%. This is the percentage taken out of your total investment over time. For a $10,000 investment, holding VREwill cost investors $38 per year, which is cheap compared to mutual funds.

The iShares option

An alternative to VRE is **iShares S&P/TX Capped REIT ETF** (TSX:XRE). XRE is very similar to VRE, tracking 19 REITs with a 25% weight cap as well. The fund is more concentrated in retail (36.6%) and residential (23.2) REITs and does not hold any real estate service companies.

In terms of income potential, XRE currently pays a 12-month trailing yield of 3.87%. However, keep in mind that this yield is dependent on the current share price. If prices fall, yields rise, and vice versa. Like VRE, XRE also pays out distributions on a monthly basis.

In terms of fees, XRE is significantly more expensive with a 0.61% MER. For a $10,000 portfolio, this means around $61 in annual fees, or $23 more than VRE. While seemingly insignificant, this amount can compound over time, especially for larger portfolios.

Bottom line

If I had to pick, I would choose VRE simply for its lower MER. Both funds look fairly similar in terms of holdings and yield. Therefore, I would opt for the fund with lower fees, all else being equal. This is an easily controllable source of risk that can significantly boost returns if kept under control.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:VRE (Vanguard FTSE Canadian Capped REIT Index ETF)
2. TSX:XRE (iShares S&P/TSX Capped REIT Index ETF)

PARTNER-FEEDS

1. Business Insider
2. Flipboard
3. Koyfin
4. Msn
5. Newscred
6. Quote Media
7. Sharewise
8. Smart News
9. Yahoo CA

PP NOTIFY USER

1. kduncombe
2. tdong

Category

1. Investing

Date
2025/07/19
Date Created
2022/09/06
Author
tdong