



Be a Landlord in Canada: Earn \$162 a Month Tax Free With REITs

Description

Rising inflation has increased rental income. According to a *CBC News* article, the median rent for all property listings on Rentals.ca surged 7% year over year to \$1,750 in the second quarter. The rental spreads are making up for the pandemic dip. Even though rents are rising, REIT stock prices are down as property prices are easing.

The correlation between interest rate and property prices

The rising interest rate makes mortgages expensive, discouraging prospective buyers from going ahead with house purchases. A \$400,000 mortgage at a 4.5% fixed rate for 25 years brings the total mortgage interest to \$264,168. If the mortgage rate increases to 5% or 5.25%, the total interest will increase to \$297,925 or \$315,101, respectively.

Now, you get an idea of what happened to the property market when the Bank of Canada increased interest rates. The [target interest rate](#) in September is 3.25%, and the central bank could follow the U.S. Federal Reserve and make more interest rate hikes in the coming months to control inflation. This could cool demand and bring down property prices.

Now is a good time to be a landlord in Canada

REIT stock prices are down, as demand slowed in the property market. This is a good time to buy REITs, as you can lock in a higher distribution yield for the long term. If you buy a property, you have to shell out \$400,000 to \$500,000. Such a huge amount would remain undiversified and bring the risk of property damage or longer vacant time.

With REITs, you can diversify your portfolio and mitigate the risk of lower occupancy without incurring property tax and other costs.

Slate Office REIT

Slate Office REIT (TSX:SOT.UN) is a small-cap stock with a \$385 million [market cap](#) and an 8.8% distribution yield. It carries a high risk, as it has a smaller portfolio of 55 commercial properties in Canada, the United States, and Ireland. It's 67% tenant base is of government and high-credit-ranking companies and an occupancy ratio of 83.6%. This occupancy ratio shows higher risk but also an opportunity to increase cash flow by filling vacant offices.

Slate Office REIT has a strong distribution-payout ratio of 74.2%, which indicates it can continue paying distributions. Its stock price dipped 15% since the first interest rate hike in March. This is an opportunity for value investors to lock in the REIT's sustainable distribution at a discounted price.

CT REIT

CT REIT ([TSX:CRT.UN](#)) is a mid-cap stock with a \$3.8 billion market cap and a 5.29% distribution yield. It carries medium risk, as it is owned by **Canadian Tire**. The REIT need not worry about the occupancy of its 371 properties across Canada, as Canadian Tire leases most of them. It enjoys a 99.4% occupancy ratio with one of the longest weighted average lease terms of 8.6 years. But it has the risk of a less-diversified tenant base (85% retail and 14% industrial). CT REIT is looking to grow through intensification projects.

CT REIT has a strong distribution payout ratio of 75.1% and is growing its distribution at an average annual rate of 3% since 2014. Its stock price dipped 10% since April, creating an opportunity for value investors to lock in its growing distributions.

Choice Properties REIT

Choice Properties REIT is a large-cap stock with a \$9.9 billion market cap, 5.37% distribution yield and 701 properties. A majority of its properties are retail (79%). **Loblaws** is its largest tenant, accounting for 57.5% of its rental revenue. Choice has an occupancy ratio of 97.6%, with a weighted average lease term of 5.7 years.

Investor takeaway

The above three REITs diversify your money across small-, mid-, and large-cap stocks, property types, and tenant bases. A \$10,000 investment in each of the above REITs through a Tax-Free Savings Account ([TFSA](#)) could earn you \$162 a month in tax-free income.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CHP.UN (Choice Properties Real Estate Investment Trust)
2. TSX:CRT.UN (CT Real Estate Investment Trust)
3. TSX:RPR.UN (Ravelin Properties REIT)

PARTNER-FEEDS

1. Business Insider
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3. Koyfin
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5. Newscred
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