
# Get More Income From This REIT Selloff

## Description

Real estate investment trusts (REITs) make it really easy to get your hands in real estate investing. As the market shows, though, it's not necessarily easy to invest in them. REIT stocks have plummeted from an increased cost of capital due to rising interest rates.



High inflation has also reduced our purchasing power. Essentially, a dollar today is worth much less than a dollar last year. Therefore, investors are also demanding higher yields from their dividend stocks.

REITs can be an integral part of any diversified dividend portfolio. Naturally, they have also sold off in this environment, particularly because they're also debt heavy from mortgages.

With that said, here are some high-yield REITs that you might consider picking up some units of in this market downturn if you seek current income.

## NorthWest Healthcare Properties REIT

The recent decline in **NorthWest Healthcare Properties REIT** (TSX:NWH.UN) is outright scary. It fell 17% in fewer than three weeks. One reason for this may be that the global healthcare REIT stock had held up relatively well versus other REITs until this selloff. So, this selloff is like a catch up.

At $10.56 per unit at writing, Canadian investors can now pocket a cash-distribution yield of almost 7.6%, which is income that is very tempting. Moreover, it now trades at a meaningful discount of more than 25% from its net asset value of $14.19 per unit at the end of the second quarter.

The healthcare REIT's assets haven't changed. It still has a defensive portfolio of essential healthcare properties, including hospitals and other healthcare facilities, as well as medical office buildings. Its defensiveness is evident from its high occupancy of approximately 97% and a weighted average lease expiry of about 14 years.

Important to note in today's high inflationary environment is that 82% of the REIT's cash flow isindexed to inflation. Its cash flow is also diversified across more than 2,100 tenants.

## SmartCentres REIT

**SmartCentres REIT** (TSX:SRU.UN) is another REIT that offers a yield of north of 7% after a selloff. Different from NorthWest Healthcare Properties REIT, SmartCentres REIT is in the retail REIT space.

It owns a portfolio of 174 properties in good locations. They're primarily unenclosed malls that are anchored by a grocery chain. Its top tenant is **Walmart**, which contributes to roughly 26% of its rental revenue. Not surprisingly, its occupancy rate is also high at about 97%. Longer term, it has development opportunities, including condo and townhome developments.

At $25.18 per unit, the REIT offers a cash distribution yield of almost 7.4%.

A consistent +7% return per year from these REITs is pretty good for the long term. Not to mention that investors are more likely to get some price appreciation over time. It's just that investors are demanding a greater margin of safety in today's environment. That said, investors who seek income can still consider easing into their positions steadily over time, as they become cheap for income.

High inflation and rising interest rates won't stay here forever. When gone, investors who locked on these high yields will enjoy that abundance income.



## Income tax on REIT cash distributions

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 Tax-Free Savings Account, Registered Retirement Savings Plan, Registered Disability Savings Plan, or Registered Education Savings Plan, then you can sidestep the above complexity. When unsure of where best to hold REIT units, contact a tax professional.

**CATEGORY**

1. Dividend Stocks
2. Investing

**TICKERS GLOBAL**

1. TSX:NWH.UN (NorthWest Healthcare Properties Real Estate Investment Trust)
2. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)

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