Canadian REITs: A Ridiculously Easy way to Increase Your Passive Income

Description

The introduction of the Real Estate Investment Trust (REIT) structure in Canada in 1993 was a great financial innovation. REITs ushered in a lower risk way for retail investors to earn passive income from real estate. Today, Canadian REITs offer huge income yields, the potential for capital appreciation, and diversification. These benefits help investors to increase risk weighted average investment returns.

A market sell-off triggered by high inflation, and rising interest rates and associated recession fears present promising buying opportunities in high-yielding REITs. The **S&P/TSX Capped REIT Income Index** is down 27.9% year to date, on a total return basis. The **S&P/TSX Composite Index**, a wider gauge of the Canadian stock market, has weakened by 11% so far this year.

Investors with some cash on the side looking to augment their income generating capacity through dividend stocks may wish to consider Canadian REITs today.

Why buy Canadian REITs right now?

Canadian REITs offer retail investors cheap and easy access to real estate investment portfolios. Unlike direct real estate investments, there is no need to raise a hefty down payment. Nor are there mortgage applications, or worries about mortgage repayments or property taxes. Moreover, you do not need to hustle chasing tenant payments, negotiating leases, or making provisions for property renovations. Renovations can cost an arm, leg, and half a limp.

Most noteworthy, REITs are exempted from income taxes as long as they pay out a majority of their annual net income to investors. Adding REITs to a Tax-Free Savings Account (TFSA) could help one enjoy tax-free regular passive income. The trusts usually make regular monthly income distributions that could easily augment the passive income in your investment portfolio.

Investing in real estate may shield your portfolio from long-term inflation. REITs can provide “bond-like” regular monthly income distributions backed by cash flows from water-tight lease agreements. As a bonus, they usually include rent inflation adjustment clauses.

Whats more, highly qualified professionals will do all the heavy lifting for you at the REIT level. The trusts offer retail investors access to some of the most brilliant minds in the property investment sector.

Investors can buy and sell real estate (through publicly traded REITs) any time the stock market is open, with little transaction costs. Investing in REITs offers instant property diversification. Rest assured, investors can sleep well at night knowing no single property's specific risks may derail their plans to receive regular passive income.

Top Canadian REIT to buy: CT REIT

CT Real Estate Investment Trust (TSX:CRT.UN) owns a portfolio of more than 370 properties across Canada, with about 30 million square feet of gross leasable area (GLA). Properties consist primarily of net lease single-tenant retail properties located across Canada. Notably, the trust is the landlord to the **Canadian Tire Corporation**. One of the best performing retailers in Canada, **Canadian Tire** has consistently reported growing same-store sales for a decade.

CT REIT pays a monthly distribution that yields 5.8% annually. The trust has increased its income distribution religiously each year since it went public in 2013. Indeed, management increased CT REIT's payouts at a compound annual growth rate (CAGR) of 3.9% over the past five years.

The trust's latest distributions for the second quarter comprised just 75% of its Adjusted Funds from Operations (AFFO). The distributions are well covered by dependable cash flows from a 100-year-old Canadian Tire business that has an investment-grade credit rating. There's ample room for further distribution growth, and more passive income.

Further, CT REIT's property portfolio is almost fully leased. The trust reported a strong 99.4% occupancy rate going into the third quarter of 2022. CRT's weighted average remaining lease term of 8.6 years is one of the longest in the REIT sector.

Investors do not have to worry much about rising interest rates yet. CT REIT has low leverage given its 40% debt ratio. About 98% of its debt is fixed rate, with a weighted average maturity of 6.9 years and a weighted average interest rate of 3.9%. The REIT has no public unsecured debenture maturities until June 2025. Rising interest rates have a low impact on the trust's passive income distributions.

CATEGORY

1. Dividend Stocks
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TICKERS GLOBAL

1. TSX:CRT.UN (CT Real Estate Investment Trust)

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