Looking for Monthly Passive Income? These 2 REITs Are for You

Description

The higher inflation and higher interest rate environment has brought us to Guaranteed Investment Certificates (GICs) that provide interest income of about 5% a year. You get principal protection, but your money will be locked in for a year. And interest income is taxed at a high rate — your marginal tax rate if the GIC is held in a non-registered account.

You can get *higher* passive income *monthly* with the following real estate investment trusts (REITs). Some investors view REITs as bond replacements, but REITs aren't perfect bond replacements, because they're subject to systematic risk and business risk.

Dream Industrial REIT

At $11.91 per unit at writing, **Dream Industrial REIT** (TSX:DIR.UN) provides a yield of almost 5.9%, paid out as monthly cash distributions. The demand for its industrial properties remain high, as illustrated by its in-place and committed occupancy rate of about 99%, which is 1% higher than it was a year ago. The weighted average lease term for is portfolio is approximately 4.7 years, which is an improvement from 4.4 years a year ago.

The REIT also reported for the end of September that the estimated market rent to base rent spread was 42.1% and 6.9%, respectively, for its Canadian and European portfolio, respectively. This means it can continue to expect rent increases on renewals.

Additionally, its net-debt-to-assets ratio improved 3.7% to 29.2% year over year. Its interest coverage ratio also improved to 13.4 times from 6.2 times a year ago. At the end of the third quarter, the stock's net asset value (NAV) was $17.05 per unit. So, it trades at a 30% discount to its NAV.

Currently, analysts believe the REIT should be worth $15.07 over the next 12 months, which represents a discount of 21%. So, investors can potentially get a nice monthly income and decent price appreciation.

NorthWest Healthcare Properties REIT

For more income or diversification, you can consider a position in global healthcare REIT, **NorthWest Healthcare Properties REIT** (TSX:NWH.UN). At $9.68 per unit at writing, it offers a juicy yield of about 8.3%.

It collects rental income from a diversified portfolio of healthcare properties, including hospitals and medical office buildings. It has more than 2,100 tenants, maintains a high occupancy of about 97%, and has a weighted average lease expiry roughly 14 years. Its cash flow is protected from inflation, as about 82% of its rents are indexed to inflation. Furthermore, more than 80% of its tenants has government support.

The stock has corrected 30% year to date primarily from higher interest rates. For higher-risk investors, it's a good opportunity to park some money at a yield of over 8%.

Taxation 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 base. The return of capital is tax deferred until unitholders sell or their adjusted cost base 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, 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:DIR.UN (Dream Industrial REIT)
2. TSX:NWH.UN (NorthWest Healthcare Properties Real Estate Investment Trust)

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