



3 REITs With the Safest Yields for 2023

Description

Real estate investment trusts (REITs) are designed to distribute reliable regular passive income from property portfolios to investors. However, REIT distributions do get cut when payouts become unsustainable. Dividend cuts are painful financial events that may jeopardize an income portfolio’s ability to attain its stated objectives. Safety is thus essential.

I’ll discuss three REITs that should pay some of the safest distribution yields for 2023.

One key metric used to assess the safety of a REIT’s distributions is the trust’s payout rate of its adjusted funds from operations (AFFO). AFFO is a measure of the trust’s recurring cash earnings that are available for monthly distributions. The measure removes the otherwise volatile, non-cash gains and losses on the fair value of real estate properties, adjusts REIT earnings for non-recurring gains and losses on property disposals, straight-line rent amortization, and deducts necessary capital expenditures and routine property leasing and maintenance expenses.

REITs that pay the lowest proportion of their AFFO generally pay the safest distributions and can easily increase payouts. The following REITs paid the safest distributions going into 2023.

Canadian REITs paying the safest distribution yields in 2023

Ticker	REIT Name	Current Yield	AFFO Payout (Q3 2022)	AFFO Payout (Jan-Sept 2022)
TSX:HR.UN	H&R REIT	4.6%	53.7%	52.4%
TSX:FCR.UN	First Capital REIT	4.8%	57.1%	51.4%
TSX:AX.UN	Artis REIT	6.4%	60%	59.2%

Canadian REITs with the lowest AFFO payout rates. Author compilation

Let’s have a look.

H&R REIT

H&R Real Estate Investment Trust ([TSX:HR.UN](#)) is one of Canada's largest diversified property owners with a \$10.3 billion real estate portfolio of 406 residential, industrial, office, and retail properties comprising 26.7 million square feet of gross leasable area (GLA) in Canada and the United States.

The trust paid out 52.4% of its AFFO during the first nine months of 2022. H&R REIT's payout rate was one of the lowest in the industry, and the distribution could be one of the safest, most covered monthly payouts on the TSX. There's ample room for the distribution to grow. A 9.1% increase was announced for January 2023.

The REIT's distribution safety is enhanced by its portfolio's strong occupancy rate of 95.8% and an average lease term of 7.5 years. The trust has maintained an investment-grade credit rating, as it executes an ongoing capital-recycling program and morphs into a residential and industrial properties behemoth. H&R's balance sheet is still intact during a rising interest rate environment with a debt-to-assets ratio of 43.6% going into the fourth quarter of 2022.

First Capital REIT

First Capital Real Estate Investment Trust ([TSX:FCR.UN](#)) owns a \$9.5 billion portfolio of 145 retail properties comprising more than 22 million square feet GLA in Canada. The trust paid one of the safest REIT distributions in Canada during the first nine months of 2022. Its AFFO payout rate was 57.1% third quarter of last year and went as low as 51.4% for the first nine months of 2022.

FCR.UN's distribution should remain one of the safest in the Canadian real estate space in 2023. It maintained a strong portfolio occupancy rate of 95.7% going into the fourth quarter. Leverage remains low given a net debt-to-assets ratio of 45.4%, and the trust is growing its same-property net operating income.

Units currently trade at a 23% discount to their last reported net asset value of \$23.47. The trust's monthly distribution yields 4.8% annually. Units have gained 8% in value so far this year.

Artis REIT

Artis Real Estate Investment Trust ([TSX:AX.UN](#)) owns a diversified portfolio of industrial, office, and retail properties in Canada and the United States. The REIT's AFFO payout rate of 59.2% for the first nine months of 2022 made its monthly distribution one of the safest monthly payouts in the industry. The Artis distribution currently yields 6.4% annually.

The trust maintained a respectable portfolio occupancy rate of 90.5% going into the fourth quarter of last year. It retains an investment-grade credit rating, and its balance sheet is intact. Insiders maintain a significant 30% stake that aligns their interests with investors' interests.

What's more, the trust is morphing into an industrial property giant with highly sought spaces, yet its units currently trade at a deep 51% discount to their most recent net asset value.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:AX.UN (Artis Real Estate Investment Trust)
2. TSX:FCR.UN (First Capital Real Estate Investment Trust)
3. TSX:HR.UN (H&R Real Estate Investment Trust)

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