



Forget Real Estate; Buy These Real Assets Instead

Description

Investing in real estate can be an excellent way to earn passive income. Buy a decent place in a nice neighborhood, rent it out to solid tenants, and let the income roll in. If only it were that easy.

As fellow Fool Robert Baillieul recently pointed out, there are [seven very compelling reasons not to invest in rental properties](#). His suggestion is to look at REITs instead, as these take away the hassles of being a landlord and replace them with consistent income. He's right.

However, investing in a REIT isn't the only way to earn passive income these days from real assets like real estate. An option I like even better is to invest in infrastructure assets, which offer the same stable and growing cash flows but typically come with higher barriers to entry and more income growth potential than real estate.

Ports, power lines, and pipelines

My infrastructure investment vehicle of choice is **Brookfield Asset Management** (TSX: BAM.A)([NYSE: BAM](#)) and its pure-play infrastructure partnership **Brookfield Infrastructure Partners** ([TSX: BIP.UN](#))([NYSE: BIP](#)). Brookfield has developed a leading infrastructure platform that spans the globe, and its infrastructure assets encompass utilities, transportation, and energy.

The utility business at Brookfield Infrastructure Partners includes 10,500 km of transmission lines and 2.1 million electric and gas connections around the world, as well as a coal terminal that handles 20% of global seaborne metallurgical coal exports. Brookfield earns a 10% annual return from these assets and that cash flow is either regulated or contracted, meaning that it's not going away.

Meanwhile, the company's transportation platform includes 5,100 km of rail track in Australia, 3,200 km of toll roads in South America, and 30 ports around the world. Again, the bulk of the cash flow from these businesses is either regulated or contractual so Brookfield doesn't need to worry when the economy takes a wrong turn.

Finally, the company's energy platform includes energy transmission, distribution, and storage, as well as direct energy. This segment is probably a bit more familiar to investors, as companies like **TransCanada**

([TSX: TRP](#))([NYSE: TRP](#)) are also engaged in the transmission and storage of energy.

TransCanada, for example, is one of the largest natural gas storage providers in Canada, and it also operates one of the most sophisticated natural gas pipeline systems in the world. Again, the cash flow from these assets is very secure, which is why income investors love companies like TransCanada. However, while TransCanada offers investors a pure play on energy infrastructure, Brookfield Infrastructure Partners takes that a step further as it's diversified across additional infrastructure asset types and geography.

Real cash

Like real estate, all of these assets generate cash flow. With Brookfield Infrastructure Partners, the cash flow from its assets leads to a current distribution yield of nearly 4.7%. That's pretty compelling passive income each year.

The company could pay out even more to its investors, but instead it keeps back about 40% of its funds from operations to invest in new infrastructure assets. The company sees these new investments as growing its already compelling distribution by 5%-9% per year over the long term. Furthermore, that cash flow is as secure as it comes, as 90% of it is either regulated or contractual. Needless to say, there won't be any sleepless nights from this investment.

Investor takeaway

Investors are drawn to real estate because they think that the only work they'll need to do is take their rent payments from the post office box to the bank. That couldn't be further from the truth as real estate is the one investment that could literally keep an investor up nights, as any landlord will tell you. While REITs can fix that problem by offering easier access to passive income, I think infrastructure investments, like Brookfield Infrastructure Partners, actually offer even better passive income over the long term.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BIP (Brookfield Infrastructure Partners L.P.)
2. NYSE:BN (Brookfield Corporation)
3. NYSE:TRP (Tc Energy)
4. TSX:BIP.UN (Brookfield Infrastructure Partners L.P.)
5. TSX:BN (Brookfield)
6. TSX:TRP (TC Energy Corporation)

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