Collect $1,000 in Monthly Rent From H&R Real Estate Investment Trust

Description

There are many reasons why real estate has become one of the most popular investments in Canada.

The biggest reason is the overall market, which seems to keep heading higher and higher. Places like Toronto and Vancouver consistently set new price records, with no end in sight. It's nice to invest in an asset class that isn't prone to price drops.

Even during the 2008-09 Great Recession, real estate held up better than stocks. Yes, the value of houses in most Canadian markets went down, but they bounced back quickly. About a year after the recession ended, large markets had recovered any price declines, plus a little more.

But there are also some pretty big disadvantages to investing in real estate. Because the sector is so popular and interest rates are so low, many landlords are willing to accept ultra-low cap rates. I've seen plenty of examples where a landlord doesn't even make enough to pay the mortgage from the rent, never mind other expenses.

This is all fine and good, assuming the value of the underlying asset keeps going up. If somebody buys a condo, they have to subsidize $3,000 per year; it's not a big deal if the value of the condo goes up $10,000 annually.

But what happens if the value of condos in Toronto, Vancouver, or Montreal goes down? Suddenly you have a wave of landlords subsidizing the value of places that are losing value each day. Most folks won't put up with this for long, which will just add to the pain in the market.

It's for that simple reason why I think buying a condo is a sucker's bet in 2015. The market might not fall this year, or even next, but it will eventually head lower.

Fortunately, there's a better way for landlords. All they need to do is pick out a high-quality REIT and stick their money in it.

How about H&R REIT?

Picking just one REIT might seem like putting all your eggs in one basket, but it's really not.

Let's take a closer look at **H&R Real Estate Investment Trust** (TSX:HR.UN) to see what I mean. H&R owns property all across Canada, with a portfolio of 40 office properties, 162 retail shopping centres, and 105 industrial properties. It also has five residential properties and two upcoming projects under development. Altogether, these buildings have more than 43 million square feet in total leasable area.

H&R also has U.S. exposure. The company owns 33.6% of Echo Realty, which has more than 8.1 million square feet of gross leasable space. That's a whole lot more diverse than a condo or two.

Shares of H&R haven't performed well lately, falling 10% over the last six months. The reasons for the decline are simple. Interest rates in the U.S. look ready to go up, which investors think will hurt REITs. REITs are heavy borrowers, and any increase in costs would hurt the bottom line.

A problem more specific to H&R is the company's exposure to Alberta. In the latest quarter, approximately 30% of operating income came from the province, something that makes investors nervous in today's oil-price environment.

H&R is poised to easily deal with any Alberta weakness. Much of the income from the province comes from **Encana**, a lease that's in place until 2038. The company also has long-term leases with many of its other Calgary office tenants. Oil is going to have to stay weak for years before H&R will really be affected.

This means the 6.4% dividend is secure. In fact, in the most recent quarter, H&R only paid out 69% of funds from operations. That's one of the lowest payout ratios in the whole sector.

You too can get a piece of that dividend. An investment of 9,000 shares (worth a little under $190,000 as I write this, before any commissions) will get you an income of $1,012.50 per month, all without screening another tenant, fixing a toilet, or anything else. Just a few mouse clicks and you're done.

In order to collect the dividend for November, you have to be a shareholder by October 16. That still gives you a few days to buy shares in one of Canada's best REITs. Hey, it sure beats being a landlord.

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1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

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