Collect $1,000 Per Month From H&R Real Estate Investment Trust

Description

There's one easy way just about every Canadian can get rich: passive income.

There are only so many hours in a day. As much as you'd like to work 24/7, eventually the grind of always being on the go will catch up to you, and often with disastrous consequences. Besides, who wants to spend all their time chained to a job?

Getting rich via passive income doesn't happen overnight. On the contrary, it often takes years of careful planning and living frugally to come up with enough investment income to really make a difference. Look at it this way: if you save $10,000 per year and can generate a 5% dividend from that investment, you're only looking at an extra $500 in year one. But by the end of year 20 you'll have an investment spinning off $17,359 annually, assuming no growth in the amount invested and re-invested dividends.

That's the kind of money that can really make a difference.

You can easily create your own passive income stream today with Canada's REITs. I chose **H&R Real Estate Investment Trust** (TSX:HR.UN) for my portfolio. Here's why you should, too.

Great long-term assets

H&R is the second-largest REIT in Canada with a market cap of $5.6 billion. It has 512 properties spread across Canada and the U.S., spanning more than 46 million square feet. Approximately half of the portfolio's value is in office properties with retail making up about 40%. Industrial properties are next at 8% of fair value, with residential coming in at 2%. H&R is currently expanding its residential portfolio with a big project in New York State.

One of the reasons why H&R's shares are down nearly 10% in the past year is because of the trust's exposure to Alberta. Approximately 25% of its net operating income comes from the province. Some 50% of that income comes directly from The Bow, Calgary's flagship office building. This building is leased to **Encana** for the long term (the lease expires in 2038), but it's only natural that investors have concerns about Encana's future. After all, the company just cut its dividend from $0.07 per share quarterly to $0.015.

Still, there's no reason to be concerned. Approximately 12% of H&R's rental income comes from Encana. The next 14-largest tenants only represent 38% of its revenue. Most of these companies are in good shape, and the average lease with them lasts for another 13 years. H&R has done a great job minimizing the risk of tenant turnover.

The Bow isn't the only high-profile skyscraper H&R owns. Other prominent buildings include the Scotia Plaza in Toronto, Place Bell in Ottawa, and 2 Gotham Center in New York. These are great assets that should continue to attract tenants.

Well valued

Owning great assets is one thing. Getting them at a fair price is quite another.

As of September 30, 2015 H&R had a book value of $24.71 per share. At the current price of $20 per share investors are picking up shares at 80% of their fair value. Remember, REITs revalue the portfolio each quarter, so book value is a fair approximation.

On a price-to-funds-from-operations perspective, H&R is also cheap. Fourth-quarter results aren't out yet, but the company was on pace to generate $1.95 per share in funds from operations at the end of the third quarter. The dividend is $1.35 per share. That's a payout ratio of less than 70%, which is outstanding for a stock yielding 6.8%.

Such a high yield means investors can build themselves up a serious passive income stream with a comparatively small amount of money. With a normal portfolio yielding, say, 3%, it would take $400,000 in capital to generate $1,000 per month in income. But with H&R, the capital needed is much smaller. You'd need just $176,500 to get $12,000 worth of dividends annually from H&R, or 8,800 shares.

That seems like a lot of money to the average retail investor. But if you really put your mind to it, it's not an impossible feat. If you invested $2,000 per month into H&R (ignoring any commissions and taxes) and re-invested any dividends, you'd be at $182,000 after just six years. And that's without a nickel of returns coming from capital gains.

Every investor should have a goal of getting serious passive income. H&R REIT might just be the ticket to help you get there.

CATEGORY

1. Dividend Stocks
2. Investing

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Date
2025/08/28
Date Created
2016/01/05
Author
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