Collect $1,000 in Monthly Rent From Smart REIT

Description

Being a landlord has been a nice way for Canadian investors to get rich–at least over the last couple of decades.

Returns offered from rental properties have traditionally been much higher than comparable investments, like GICs or blue-chip stocks. This gave investors an incentive to deal with the headaches of owning property. When a rental property returns 10-12% annually compared to a 5% GIC, it's easy to justify the extra work.

And then something happened. As interest rates went down and investor focus turned towards real estate, returns from rental properties went from attractive to anemic. Cap rates in Canada's major cities are now easily under 5%. Add in expenses like mortgage interest, condo fees, and basic maintenance, and many landlords are now banking on capital appreciation to make them rich, not cash flow.

That's a dangerous game to play. What happens if the bubble pops and those steady price increases turn into losses? With no cash flow to back up the investment, it's a dangerous spot for an investor to be.

Instead, investors should consider an easy alternative. They can get great yields from real estate investment trusts (REITs) without the hassle of owning property. Here's how any investor can collect $1,000 per month in rent from **Smart REIT** (TSX:SRU.UN) without setting foot in a physical property.

All sorts of advantages

There are many reasons to own Smart REIT over a condo.

Firstly, there's diversification. Smart owns 138 different retail properties stretched across Canada, totaling 30.6 million square feet of total leasable area. The company's acquisition of SmartCentres back in 2015 really beefed up its exposure to Ontario–a move the market likes right now.

Many of these properties are anchored by the biggest retailer out there, **Wal-Mart** (NYSE:WMT). Many investors view this as a negative, since they don't want one retailer dominating a REIT's income. What happens if Wal-Mart starts to struggle?

I view it as a positive. Wal-Mart is about as strong as a retailer can get. Every time I go into a Wal-Mart store, it's packed with people. And since Wal-Mart attracts so much foot traffic, it makes renting the space beside Wal-Mart that much more attractive for other retailers. Even if a clothing store directly competes with Wal-Mart, they benefit from the extra traffic.

Smart has one of the highest occupancy rates in the Canadian REIT universe because of this relationship with Wal-Mart; its occupancy rate regularly flirts with 99%. It's currently at 98.7%.

Most real estate investors stick with residential property. The average person will never be able to afford a $10 million commercial property, so they stick with condos that cost a quarter million. REITs like Smart give investors the ability to easily diversify their portfolio while paying tiny management fees thanks to economies of scale.

How to collect $1,000 per month

Smart currently pays a 5% dividend, which is one of the lowest in the whole REIT sector. Investors can easily get yields of 6-8% if they're willing to take on a little more risk.

But why would they? The whole point of this exercise is to build a sustainable income stream. Since Smart REIT has a payout ratio of just over 80%, a good debt-to-assets ratio of 44.7%, and a portfolio packed with newer buildings, investors should be able to count on steady distribution increases over the next five to 10 years. The company last raised its dividend in October, upping it from $0.1334 per month to $0.1375.

As it stands right now, investors would have to own 7,272 Smart REIT shares to generate $1,000 per month. That's an investment worth $241,600, excluding any commissions.

Even if $241,000 is a little out of your budget, it's easy to invest enough in REITs to really make a difference. Our newest report shows you how.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:WMT (Wal-Mart Stores Inc.)
2. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)

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