



Collect \$1,000 Per Month in Rent (and Never Deal With a Broken Toilet Again)

Description

As the old saying goes, 90% of millionaires are wealthy because of real estate.

While I'm not really sold on the accuracy of the statement—building a business is a powerful way to get wealthy that is often overlooked by investors obsessed with passive means—the spirit of it still stands. There are many people who have used the power of real estate to build a portfolio that spins off thousands of dollars per month in passive income.

Real estate investors have also been helped by a 30-year decline in interest rates, a move most experts agree has been one of the major factors responsible for pushing housing prices into the stratosphere. Most people buy real estate based on the monthly payment, not the sticker price. As long as the payment is reasonable, the property gets purchased.

Although real estate has been a terrific asset class to own over the last few decades, certain pundits are starting to get nervous about the sector, especially residential real estate. Cap rates for condos in major centres are below 5% as investors make up for a lack of cash flow by increasing the property value. That kind of strategy works—at least until the market stops going higher. When that happens, nervous investors flee, further exasperating the problem.

There's also the active aspect of managing residential real estate. Repairing plugged toilets is the big one that wannabe landlords worry about, but much more time is spent vetting potential applicants, collecting rent, dealing with tenant changeovers, and so on. Evictions don't happen very often; but when they do, they're incredibly time consuming.

Fortunately, there's a better way. Investors can collect passive rent from real estate investment trusts (REITs) without having to deal with any of the headaches of tenants. The best part? These trusts pay out dividends of 6% ... 8% ... even 10%—yields that are almost unheard of in the world of residential real estate.

Here are a couple of REITs investors should consider for their portfolios.

H&R

H&R Real Estate Investment Trust ([TSX:HR.UN](#)) is Canada's second-largest property owner, owning more than 300 properties covering more than 44 million square feet in gross leasable area. H&R also has exposure to the U.S. market through its 33% ownership stake in Echo Realty, an entity that owns more than 200 properties south of the border.

H&R trades at a reasonable valuation. The company generated \$1.95 per share in funds from operations in 2015, putting shares at less than 11 times earnings. That's the equivalent of getting a 9% cap rate on physical real estate, something that's almost unheard of in today's market. It also ensures the company generates enough cash to cover the 6.4% yield.

Artis

Artis Real Estate Investment Trust ([TSX:AX.UN](#)) is, in my opinion, one of Canada's most underrated REITs.

Artis owns 249 properties, covering more than 25 million square feet in gross leasable area. It has exposure to the U.S. market (more than eight million square feet of space is located in Minnesota, Colorado, and Arizona), occupancy close to 95%, and trades at a 30% discount to its book value.

Artis also pays a great dividend, coming in at a yield of 8.2%. And like H&R, the yield sure looks to be sustainable. In 2015 the company paid out just 72.5% of its funds from operations to unitholders, one of the lowest payout ratios in the REIT sector.

Collect \$1,000 per month

Investors looking to collect \$1,000 per month in distributions from these two companies don't have to invest that much capital.

It would take 5,555 Artis shares to generate an income of \$500 per month. At today's price, that's a total investment of just under \$73,000, excluding any trading commissions.

Investors can generate a similar monthly income from 4,444 H&R shares, an investment of just over \$94,000. Together, these two REITs can generate \$1,000 in monthly income from a total investment of just \$167,000. That's less than half of the value of the average Canadian house.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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

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Date

2025/08/28

Date Created

2016/04/25

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