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

Description

Many investors love real estate because of its predictable cash flows, general stability, and the ability to borrow to acquire a lot of it at one time.

But there are issues surrounding the sector, especially in the condo market, which has become so popular with investors. Valuations across Canada are high, especially in Toronto and Vancouver. Cap rates are hitting historical lows as investors are happy making the majority of their gains in appreciation rather than cash flow.

And then there's managing a rental property. A landlord has to show the place to prospective tenants, make repairs, collect the rent, and a myriad of other odd tasks that inevitably come up.

There's a better solution. Instead of putting your cash into a single rental property, go with a diversified real estate investment trust. REITs offer similar yields as rental properties with the perk of doing none of the work. All you need to do is sit back, relax, and watch the rent cheques roll in.

The only thing left for an investor to ask themselves is which REIT to buy. Here's the case for **H&R Real Estate Investment Trust** (TSX:HR.UN).

High-quality assets

H&R is a truly diverse business, owning retail, office, industrial, and residential real estate. In total, the company has some $13 billion worth of assets comprising over 43 million square feet of gross leasable area. H&R also has a 33.6% ownership stake in ECHO Realty, which owns 8.7 million square feet worth of space in the United States. These assets make H&R Canada's second-largest landowner.

One of H&R's strategies is to sign quality tenants to long-term leases. It has a current average commercial lease term of 9.9 years, which is among the top in the industry. This has helped it as Alberta, one of its main markets, has experienced a downturn.

Still, occupancy still remains strong, even after accounting for Alberta's weakness and the sudden departure of one of H&R's largest tenants, **Target**. H&R has 95.6% of current space occupied, and the company has conditional agreements to fill half of the vacated Target stores.

More growth will come from the company's Long Island project–a joint residential/retail development that's expected to include 1,871 luxury apartments and 15,000 square feet of retail space.

Valuation

Buying great assets is one part of investing. The other is making sure you don't pay too much for them.

No matter what way you look at it, H&R shares are cheap. From an earnings perspective, the company is on track to post $2.02 per share in funds from operations (FFO)–an important metric of profitability for REITs. That puts shares at just 11.2 times FFO, which is a very reasonable number.

Management projects earnings will get even better. Once Long Island City and the space previously leased to Target starts adding to the bottom line, FFO could easily reach $2.25 per share.

H&R is cheap on an assets perspective as well. At the end of its most recent quarter, H&R had a book value of $23.79 per share. That puts shares at a slight discount to their book value. It's the equivalent of paying 95 cents for every dollar of value.

Collect $1,000 per month

To collect $1,000 per month in rent from a condo or rental property, it can often take an investment of $250,000 or more. And that investment won't gross you $1,000 per month because there are expenses like property taxes, repairs, and vacancies.

To collect $1,000 per month from H&R REIT, it would take an investment of 8,888 shares, which would set you back $201,500. And remember, the only thing left to do on that income is to pay the taxes. It's true passive income, unlike owning a rental property.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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

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