Generate Passive Income With These 2 REITs

Description

Real estate is a time-tested and proven method of building wealth and passive income. However, it's not an area of investing we are all comfortable with. Fortunately, any investor can gain exposure to the real estate industry through real estate investment trusts, better known as REITs.

REITs are a variety of properties (i.e., offices, shopping malls, apartments, etc.) packaged into a portfolio and managed by professionals in the real estate industry. Shares in these REITs are traded on the stock market and allow everyday investors to enter the world of real estate. In addition, many REITs provide reliable returns and solid dividend payouts year after year.

Pure Industrial Real Estate Trust (TSX:AAR.UN) and **H&R Real Estate Investment Trust** (TSX:HR.UN) are two large players in the real estate industry that investors should consider adding to their portfolios.

Pure Industrial

Pure Industrial owns and manages industrial buildings throughout North America. With over 160 properties under management and a vacancy rate of 2.3%, Pure Industrial can continue to generate significant cash flows to expand its current portfolio and increase its current dividend yield of 5.1%.

The company's largest tenant is currently **FedEx Corporation**, which generates 25% of its current revenue. One may argue that it's not wise to have a large portion of its income with one tenant; however, FedEx is a strong business that stands to benefit from the rise of e-commerce. Therefore, FedEx should remain a tenant for the foreseeable future and a significant portion of the company's cash flows is relatively safe.

The company recently had an equity issuing which will result in an additional $125 million cash on hand. The company intends to use these funds to reduce its current debt levels and fund further acquisitions. Therefore, the combination of ample resources and strong cash flows indicate that Pure Industrial will be a large player in the industrial real estate market for years to come.

H&R

H&R is a diversified REIT with exposure to retail, office, industrial, and residential properties throughout North America. Even with such a broad focus in real estate, the company has impressively sustained an occupancy rate above 95% since 1997. In addition, the company has been able to increase its funds from operations (FFO) per share for seven straight years while growing its total assets by 136% during that same period.

From a valuation perspective, the stock price is currently trading at a price-to-FFO ratio of 11.3 which is below its five-year average of 13.2. Therefore, investors have an opportunity to add an undervalued stock with a juicy dividend yield of almost 6% to their portfolios.

Foolish bottom line

Whether investors want to take on the responsibility of becoming a landlord or acquire shares in REITs, they should have exposure to real estate in their investment portfolio. It’s a proven industry with a track record of accelerating returns over the long term. Buy and hold great REITs like the ones mentioned above and patiently watch the returns compound!

Stay Foolish my friends.

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TICKERS GLOBAL

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

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