Lazy Landlords: Earn $500/Month From These Little-Known REITs

Description

I was recently speaking with someone who wanted to buy property in our same small town. Normally, I encourage any form of investing I can, but I did the opposite. I did everything I could to try and talk her out of it.

Owning physical real estate is a giant pain, especially for new landlords. These folks don't have a solid grasp on tenant laws, which means they're prime prey for tenants who know how to exploit the rules. Just one bad renter can easily run a landlord a $10,000 bill once we factor in lost revenue and paying a lawyer to maneuver through the legal process of getting them evicted.

There are other drawbacks, too. Owning physical real estate takes work. You have to show the place to prospective tenants, fix issues, deal with tenant complaints, and a myriad of other factors. Most of this can be outsourced, but that takes a big bite out of your profits.

Fortunately, there's a better way. Wannabe landlords can load up on Canada's top real estate investment trusts (REITs): passive investments that offer instant diversification across both different asset classes and locations, succulent yields, and potential upside as their underlying holdings appreciate.

Let's take a closer look at three of Canada's lesser-known REITs and how they can help you generate $500/month in passive income.

Morguard

Morguard REIT (TSX:MRT.UN) owns 49 properties spanning six different provinces, all with a combined gross leasable area of 8.6 million square feet. The trust's assets consist of 28 office and industrial properties, with the remainder being retail space.

Shares currently trade hands at just over $12 each, while net asset value is closer to $26 per share. This massive discount exists because the market is not in love with Morguard's Alberta-heavy portfolio. Approximately one-quarter of the portfolio is in Alberta, including some pretty heavy ownership stakes in the Calgary office market and in some regional malls in smaller centres — investments the market doesn't love today.

The good news is these assets have serious upside potential. And investors get paid a generous 7.8% yield to wait — a payout that is covered by earnings.

Granite REIT

Granite REIT (TSX:GRT.UN) owns industrial warehouse and logistics real estate in North America and Europe. The company's portfolio consists of 85 properties spanning approximately 33 million square feet across nine different nations.

When Granite listed as a public company back in 2011, almost all of its revenue came from **Magna**, the car parts giant. These days, a little less than half of its revenue comes from its largest tenant. The company is actively seeking expansion opportunities as well as identifying certain development opportunities to further diversify. Granite has one of the best balance sheets in the sector, which should allow it to easily expand.

The company has raised its annual payout each year since 2012. The current payout is $2.80 per share, which is good enough for a 4.4% yield. The payout ratio is under 80% of funds from operations.

Northwest Healthcare

Northwest Healthcare Properties (TSX:NWH.UN) owns medical office buildings in Canada, hospitals in Brazil and Australia, various assets in Europe, and long-term care facilities in Australia and New Zealand with a partner. In total, the portfolio consists of 149 different properties and over 10 million square feet of gross leasable area.

The company is in growth mode, recently announcing a deal worth more than $1 billion to expand its presence in Australia. With healthcare spending across the world ramping up, Northwest should have additional expansion opportunities. And remember, it hasn't even cracked the U.S. market.

Investors are paid a $0.067 per share monthly dividend, which works out to a 6.9% yield.

Collect $500 per month

To get $500 per month from these three great (yet relatively unknown) REITs, you'd have to invest in the following:

- 2,492 Northwest Healthcare Properties shares for a total investment of $29,106
- 717 Granite REIT shares for a total investment of $45,522
- 2088 Morguard REIT shares for a total investment of $25,724

In total, you'd need approximately $100,000 invested to collect $500 each month.

That might seem too aggressive, especially for new investors. But even starting small can have a profound impact. A $10,000 investment would generate $50 per month, which covers a nice meal out or a cheap cell phone plan. That’s a great start.

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1. TSX:GRT.UN (Granite Real Estate Investment Trust)
2. TSX:MRT.UN (Morguard Real Estate Investment Trust)
3. TSX:NWH.UN (NorthWest Healthcare Properties Real Estate Investment Trust)

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