Millennials: How to Make a Killing Off Monthly Income REITs

Description

On the spectrum of total expected returns over the long term, stocks offer around 10%, small-cap stocks provide a bit more at approximately 12%, and REITs are capable of offering a similar magnitude as small-cap stocks with 12-13% in average total returns, depending on who you ask and which indices or timeframe you're looking at.

REITs have a reputation for being incredibly boring investments that only a retiree could love, but they're actually a terrific way for risk-averse investors to score excess risk-adjusted returns (or the elusive alpha that so many active investors seek). REITs pay out a considerable amount of their net income to investors in the form of a distribution, so as an asset class, they simply don't have the means to sustain double-digit growth numbers.

Moreover, given that real estate is tied to the performance of broader macroeconomic trends, REITs are seen as either wonderful or horrid bets given the unique market conditions at a certain point in time. You've also got to keep in mind that some geographies are hotter than others (I.e., the frothy Greater Vancouver Area versus Edmonton's ice-cold market). So, the fate of all REITs isn't necessarily as closely tied to the broader macro conditions or the trajectory of interest rates as most investors believe. There are opportunities in the REIT space during less-favourable times and vice versa.

If you understand how to hunt down REITs, you not only can you experience lower-volatility gains, as high distributions dampen out the choppy market moves, and REITs typically have a low correlation (low beta) to the stock markets as an alternative asset class, but you can potentially do better with a quality portfolio of REITs than you could with a diversified mix of stocks and bonds!

So, don't buy the "REITs are poo poo in today's unfavourable environment" from the talking heads on TV.

Each REIT is built differently. They're businesses, just like stocks are, and if you know how to spot the winners from the losers, you can really make a killing. Unlike stocks, however, the lower volatility in the world of REITs is a deterrent for traders who are looking to make a quick buck. So, indeed REITs are a club for long-term investors only!

When looking for REITs, look at the real estate sub-industry and study the capabilities of management, their track record and their plan. Consider **Killam Apartment REIT** (TSX:KMP.UN), a relatively small REIT with a $1.72 billion market cap with a diversified portfolio of residential properties primarily located on the Atlantic coast (over 65% of earnings come from Nova Scotia and New Brunswick).

The company's managers have unlocked a considerable amount of value for shareholders over the past few years thanks in part to smart, opportunistic moves.

In spite of the growth-killing requirements that have been set for all REITs, Killam has found a way to grow its distribution and stock price through the exceptional management of operations, resulting in applaud-worthy efficiencies and enough cash flow growth not only to line the pockets of investors but to finance further developments in Killam's target markets.

As a smaller REIT, Killam has greater agility than most other "bloated" REITs that require tonnes of upkeep. With a proven strategy and a smart management team, I see Killam as a way to make a killing on the TSX over the next decade and beyond.

Who says you need to take excessive risks to score bigger returns?

All you need is patience and a long-term time horizon. Over the past three-and-a-half years, Killam has soared 83%, and the distribution has grown by an equally impressive amount. Today, shares yield 3.5%, so for those looking to keep volatility at bay, Killam is a staple for your portfolio.

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