Become a Property Investor and Build Passive Income Without Becoming a Landlord

Description

Being a landlord can be an absolute headache and isn't the most effective means of generating income and capital growth or achieving your investing goals. Property, because it is a hard asset, holds a considerable allure for many investors — and can be a stable less volatile means of generating steadily growing passive income, making it an attractive asset for many retirees.

Nonetheless, owning rental properties can come with a vast range of problems, including taxes, repairs, maintenance and renovation expenses, poor tenants, agency fees and lost income due to vacancies. A more effective means of generating a dependable regularly recurring passive income stream is by investing in real estate investment trusts (REITs). These not only remove the significant costs and burdens associated with direct property ownership but also substantially reduces investment risk by diversifying across different classes of property.

Let's take a closer look at two REITs paying regular sustainable distributions yielding 6% or more and avoid exposure to troubled bricks and mortar retailers as well as shopping malls.

Leading industrial REIT

Dream Industrial REIT (TSX:DIR) owns a portfolio of 245 industrial properties with 24 million square feet of gross leasable area across Canada and the U.S. It has a quality group of tenants, with Nissan North America, Spectra Premium Industries and TC Transcontinental making up its top three tenants by gross rental revenue. Dream Industrial pays a regular monthly distribution yielding just over 6% and reported solid first quarter 2019 results.

The REIT finished the period with a solid occupancy rate of 96.5%.

It also reported a notable 18% year over year increase in funds from operations (FFO) to $25 million, while net operating income (NOI) rose by 0.5% to $31 million. Net income declined sharply to am $8 million loss compared to a $45 million profit a year earlier, but this was because of non-cash fair value adjustments recorded for the year rather than any operational failings.

The rapid growth of e-commerce will serve as a powerful tailwind for Dream Industrial, with retail analysts predicting that online sales will be worth over US$4 trillion by 2020 and make up 15% of all retail sales globally. That will in turn spark greater demand for light industrial properties to be used as logistics and distribution centres by e-commerce providers, which, according to industry insiders will drive rents 10% to 12% higher.

Higher earnings will bolster the sustainability of Dream Industrial's distribution, which, with a payout ratio of just under 84% of diluted FFO is already maintainable.

Office REIT with a juicy yield

Even after recently slashing its distribution by almost half, **Slate Office REIT** (TSX:SOT.UN) still offers a yield of almost 6.8%. It also appears attractively valued, particularly after its first-quarter results are considered. Slate Office owns 41 office properties located in Canada and Illinois.

Slate Office finished the first quarter with an 87.7% occupancy rate, which was 1.8% greater than a year earlier while NOI shot up by an impressive 34% year over year to $27 million. After the distribution cut is accounted for, the payment ratio as a function of adjusted funds from operations (AFFO) is a sustainable 70%, and this should fall further as NOI and FFO grows over the coming months.

Slate Office had a net-asset-value of $8.49 at the end of the first quarter, which was 3.5% greater than for the same period in 2018. It's also 30% higher than its current unit price, indicating that the REIT is undervalued by the market and offers considerable upside to investors who buy today.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:DIR.UN (Dream Industrial REIT)
2. TSX:RPR.UN (Ravelin Properties REIT)

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