Retire Early: Make a Growing Passive Income With REITs

Description

The potential to generate a growing passive income through investing in real estate investment trusts (REITs) remains high.

Certainly, there are fears surrounding the outlook for the global economy, with trade tensions between the US and China being high.

However, with the prospect of a loose monetary policy being pursued by many of the world's major central banks, the industry may experience continued growth over the medium term.

Favourable operating conditions

Since the financial crisis, global property prices have benefitted significantly from an accommodative monetary policy that has been pursued by a number of central banks. Policies such as lower interest rates and the Federal Reserve's asset repurchase program have improved confidence among investors, which has led to rising asset prices.

Looking ahead, there could be a continuation of this trend in the medium term. Weak economic data in the US means that a cut in interest rates is becoming increasingly likely. Certainly, the previously expected rise in interest rates after the upward movements in previous months is now unlikely. This could mean that the global economy, and thereby asset prices, gains a boost over the medium term.

Cyclicality

Although property prices may have faced an uncertain period of late, their long-term track record has generally been favourable. Therefore, investing in REITs is likely to be a beneficial strategy to investors who are seeking to generate a passive income over the long run.

Even if property prices come under pressure in the short run, investors in REITs could benefit. It may be possible to buy attractive assets at below their intrinsic value; thereby creating greater scope for profitability through the cycle. Since REITs generally have impressive income returns that may prove to be sustainable even during challenging operating conditions, investors in them may have the cash flow required to increase their exposure the sector during periods of uncertainty. This could help them to maximise their long-term returns.

Debt

Although the property industry may have a solid track record of growth and could benefit from a dovish global interest rate environment, ensuring that REITs have modest leverage could be a sound idea.

This could help investors to avoid potential losses. It may also ensure they invest in companies that could be better-placed to capitalise on possible opportunities which may be ahead during more challenging parts of the property cycle.

Focused growth

With the world economy continuing to evolve towards a digital future, investors may wish to focus on REITs that have exposure to faster-growing segments of the economy.

For example, consumers are increasingly comfortable buying goods online. This may mean that demand for warehouses increases and retail units are gradually converted to office or residential space. As a result, REITs that own vast swathes of retail units may be unable to deliver the level of returns that companies with portfolios that are focused on warehousing can offer.

Overall, though, the sector appears to have a favourable long-term outlook. Through diversifying and adopting a buy-and-hold strategy, REITs look set to offer a growing passive income for investors.

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