How to Get Rich and Retire Early on a Passive Income From REITs

Description

For many investors, generating a passive income that is sufficient to allow them to retire early is a major goal. While it is achievable in many cases as a result of the returns that the stock market can offer over the long run, ensuring that a passive income is sustainable and diverse is highly important.

Indeed, retiring early only to find that a passive income declines significantly would be a highly disappointing result. As such, investing in real estate investment trusts (REITs) could prove to be a worthwhile move as a result of the diversity and relatively low risks that they can offer.

Diversity

While investing directly in property has produced a generous passive income for a wide range of investors, doing so is relatively risky. For many investors, it is simply not possible to own a wide range of properties in order to reduce the potential disruption caused by factors such as void periods, tenants who fail to pay their rent and regulatory costs. As such, their property portfolio may be highly concentrated, which means they are reliant on a small number of properties for their passive income.

By contrast, REITs can offer a significant amount of diversification. This can be from their size, with many REITs owning a large number of properties, and also from their usage. In fact, a number of REITs have exposure to a variety of residential, office and retail units that, when combined, may help to offer returns that are more robust and less volatile than when purchased in isolation.

Return potential

Of course, REITs are not only appealing due to their risk profile. They also offer the potential for a relatively high income at a time when interest rates continue to be at low levels.

Therefore, their yields when compared to other income-producing assets such as cash and bonds can be relatively appealing. In many cases they may allow an investor to not only generate a generous passive income, but to also see that income rise at a faster pace than inflation over the long run.

Outlook

While the potential for capital growth from REITs may not match some sectors of the stock market such as technology, they could provide a sustainable passive income over the long run. When compounded, this could produce significant returns that increase an investor's prospects of retiring early.

Property prices, of course, could become increasingly volatile in the near term. Furthermore, global economic uncertainty may cause the wider stock market to come under a degree of pressure.

However, such challenges may create even more enticing buying opportunities for investors seeking a passive income. By investing in REITs regularly and holding them over the long run, they may be able to provide a favourable risk/reward opportunity that increases the chances of early retirement.

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