Here's How to Get Rich and Retire Early by Investing in REITs

Description

The global property sector has enjoyed strong growth since the financial crisis. A combination of low interest rates, a buoyant world economy and wide margins of safety in the aftermath of the financial crisis have produced impressive returns for many investors.

Looking ahead, there could be further growth on offer from the wider sector. One way of accessing it is through buying real estate investment trusts (REITs). They provide diversity, as well as growth potential over the long term.

As such, now could be the right time to invest in REITs. Through having a focus on diversity, value and exposure to fast-growing sectors, you could improve your chances of getting rich and retiring early.

Diverse exposure

While REITs can offer long-term growth potential, the property industry has historically moved in cycles. This means that, in the short run at least, there is always the potential for property prices to move lower and for investors to experience paper losses.

As such, it is prudent to own REITs that offer a degree of diversity. This could, for example, mean that they hold a wide variety of assets in different locations. Or, it could mean that a REIT holds different types of assets, such as retail, leisure and residential, in order to reduce their reliance on a specific sector.

Through buying REITs that offer greater diversity, an investor may also be able to access a wider pool of growth opportunities in what is a rapidly-changing world economy.

Growth focus

In the past, REITs that had exposure to retail assets were generally seen as offering stability and a robust income stream. Due to technological changes, though, REITs with retail exposure may become less popular over the coming years. The increasing popularity of online shopping means that demand for retail units in a wide range of markets could fall. This may mean that REITs which own a large volume of retail units are forced to pivot towards faster-growing areas, which could be a challenging process.

As such, investors may wish to focus their capital on growth areas. One such sector is logistics facilities, such as warehouses. They are becoming more in-demand as online shopping businesses enjoy a tailwind from increasing consumer demand. Positioning a portfolio so that it is concentrated in faster-growing sectors, such as warehousing, could lead to higher returns in the long run.

Low valuations

Although global property prices have made gains in the last decade, a number of REITs continue to offer good value for money. In some cases they may trade below net asset value, which could represent a low valuation that produces an impressive rate of capital growth over the long run.

Due to the cyclicality of the property industry, it may take time for undervalued REITs to narrow the gap between their market value and intrinsic value. However, by holding on to undervalued assets over the long run, an investor may increase their chances of getting rich and retiring early.

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