



Why Dividend Investors are Stamping Into REITs

Description

With many investors seeking a long-term source of income, real estate investment trusts (REITs) could become increasingly popular.

By their very nature, REITs offer a relatively large amount of diversity. They invest in a wide range of properties – often in different sectors and regions. This could help to reduce their risk, as well as provide a more stable income return over the long run.

Furthermore, with property prices having a solid track record of growth, there may be potential to generate capital returns alongside an appealing income outlook.

Diversification

For many income investors, diversification is of paramount importance. After all, there is little point in buying assets that have high yields when they are unable to offer a sustainable income return over the long run.

Since REITs invest in a range of properties, they naturally provide greater diversity than direct investment in property. They may also produce more stable returns than dividend stocks, since leases tend to be long-term in nature, and demand for high-quality assets is generally high.

With some REITs having exposure to retail, offices and leisure sectors across a variety of different locations, it may be possible to achieve a significant amount of diversity from investing in a limited number of REITs.

Income prospects

While the prospects for the world economy continue to be uncertain, over the long run a variety of REITs have enjoyed solid rental growth. Demand for a range of high-quality properties has continued to be high, with this situation likely to remain in place over the coming years.

As such, it may be possible to not only obtain a relatively high income return from REITs today, but to also enjoy inflation-beating dividend growth over the medium term.

At a time when many companies are facing an uncertain period, REITs could offer a greater degree of stability than some listed companies. The long-term nature of their leases and scope to re-let properties to new businesses may mean that they offer more dependable dividend growth than some stocks over the long term. This could make them highly attractive for [dividend investors](#).

Growth potential

Although global property prices have enjoyed strong gains in the last decade, further growth could be ahead. The potential for falling interest rates across the world economy may provide a boost to property prices, while continued global GDP growth may lead to higher demand for a range of properties across a number of different sectors.

With property prices being cyclical, long-term investors in REITs are likely to experience periods of disappointing performance at times. However, over the long run the sector has been able to post relatively resilient growth that has led to impressive total returns. And, through buying during downturns for the wider property market, it may be possible for investors to capitalise on the cyclical nature of the industry. Doing so could enhance their income returns, which makes REITs even more appealing for many investors.

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Date

2025/08/26

Date Created

2019/07/27

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