Retirement Savings: How to Generate a Growing Passive Income From REITs

Description

The global property sector has historically offered a relatively stable and rising income return for investors. Certainly, there have been periods of volatility and uncertainty, but investors who have held for the long term have often been rewarded with a high and growing passive income.

As such, holding real estate investment trusts (REITs) within a portfolio could prove to be shrewd move. While diversity and an appealing yield are likely to be important to income investors, holding for the long term could prove to be equally valuable when seeking to build a rising passive income.

Holding multiple REITs

While a REIT typically invests in a wide range of properties, in some cases they may follow a specific theme. For example, a REIT may specialise in retail properties, or in offices. As such, it could be prudent to hold multiple REITs that focus on different types of assets within a portfolio in order to reduce overall risk.

Likewise, it may be a worthwhile move to own REITs that operate in different geographies. Even within the same country there can be differences in the growth rates of one region versus another. And, with purchasing international stocks now easier due to online sharedealing, diversifying in terms of exposure to different countries may reduce overall risk within a portfolio. This could produce a more reliable passive income in the long run.

Long-term growth potential

While the property market is cyclical, in the long run it has historically offered significant levels of growth. As such, it could be beneficial for an investor to not only hold on to their REITs during downturns for the wider economy, but to increase their exposure to the sector during periods where there are REITs trading significantly below their net asset value.

This approach could allow investors to benefit from what is likely to be rising demand for a wide range of property over the long run. With world population rising and the rate of building new properties generally lagging it in many parts of the world, global property prices may continue their upward trajectory over the coming years.

Return potential

While REITs that have high yields can offer attractive income returns today, they may also deliver improving levels of capital growth over the long run. A high yield may prove to be a sound indicator of a REIT trading at a discount to its intrinsic value, and could therefore provide an investor with the potential for impressive total returns over the long run.

While capital growth may not be the primary concern for investors who are seeking to generate a passive income, a larger portfolio makes the task of obtaining a second income somewhat less challenging. As such, it may be worth paying attention to a REIT's yield for guidance on its valuation, as well as its income return potential.

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