Why Every Retirement Portfolio Should Contain REITs

Description

Planning for retirement is becoming ever more complicated with near historically low interest rates causing the yields of traditional income producing assets such as bonds to plunge. Less volatile high yielding real estate investment trusts (REITs) have surged in popularity and value in the current environment.

The **BMO Equal Weight REITs Index ETF** (TSX:ZRE), which seeks to replicate the performance of an equal weight Canadian REIT index, has gained a respectable 21% since the start of 2019.

Advantages of REITs

REITs are an ideal asset for investors seeking less volatile liquid stocks, which pay regular income with substantial sustainable yields and provide moderate long-term capital appreciation.

REITs are usually less volatile than many other stocks, as they invest predominantly in real estate, which is a hard asset and their earnings are contractually locked-in, making them highly dependable.

REITs provide investors with a range of advantages over owning direct property, including significantly higher liquidity, greater transparency, lower costs and stable dependable income. These characteristics make REITs an ideal investment for creating wealth over the long-term.

Diversified ETF

While many Canadian REITs such as **Brookfield Property Partners** (TSX:BPY.UN)(NASDAQ:BPY) are paying distributions with yields in excess of 6% and are attractively valued, a sector-diversified ETF such as the BMO Equal Weight REITs can provide a lower risk alternative.

Its portfolio is diversified across a range of industries, including residential, retail, office and industrial REITs with **InterRent REIT**, **H&R REIT** and **Allied Properties REIT** making up its three largest holdings.

BMO Equal Weight REITs pays a regular sustainable distribution yielding 4%, which, if reinvested, allows unitholders to access the power of compounding, which over the last five years has seen it generate a 10.5% annualized return for investors.

The only drawback to using an ETF is the need to pay a management expense ratio (MER), which for BMO Equal Weight REITs totals 0.61%; this can cause total returns to diminish over the long term.

It's also trading at around a 21% premium to its net-asset-value (NAV) per unit, thereby indicating that there may not be much more upside ahead.

Global commercial property portfolio

For those reasons, Brookfield Property Partners could be a superior investment to consider. The partnership has a beta of 0.99, indicating that its stock is slightly less volatile than the overall market and making its value more dependable over the long term.

Aside from unitholders not having to pay a MER, it's very attractively valued because it is trading at around a 27% discount to its NAV, indicating considerable upside ahead for unitholders.

Brookfield Property Partners has hiked its distribution for the last six-years to see it yielding a very juicy 6.7% or more than two full percentage points higher than BMO Equal Weight REITs.

The partnership has embarked upon a unit buyback because it believes that its current market value doesn't reflect its true value. Brookfield Property Partners intends to acquire 35,252,769 units, representing around 10% of its public float. This will help buoy its market price.

The diversified high-quality commercial property portfolio, which encompasses retail and office assets, including several globally recognized trophy properties, along with a range of speculative investments across all property classes will sustain earnings growth.

This will allow Brookfield Property Partners to reward unitholders with further distribution increases and achieve its targeted 5% to 8% distribution growth and generate total returns of 10% to 12% from its core property portfolio.

Foolish takeaway

REITs provide a highly liquid high yielding means of generating income and dependable long-term capital gains, making them a must-own asset for investors seeking to build wealth over the long term.

BMO Equal Weight REITs is a lower risk highly diversified option for less risk tolerant investors seeking exposure to the sector, while Brookfield Property Partners provides concentrated exposure to a global portfolio of commercial property with a juicy 6.7% yield. It's trading at a discount to its NAV, indicating potentially considerable capital gains ahead.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:BPY.UN (Brookfield Property Partners)
2. TSX:ZRE (BMO Equal Weight REITs Index ETF)

PARTNER-FEEDS

1. Business Insider
2. Msn
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