



Retirement Saving: How REITS can Help You Generate a Passive Income

Description

Even though the prospects for the global property market may be somewhat uncertain at the present time, buying real estate investment trusts (REITs) could prove to be a sound move.

They offer long-term growth potential, as well as a high present-day income return in many cases. They may also provide additional diversity to a portfolio, which could lead to a less volatile income return over the long run.

As such, now could be the right time to focus on REITs in order to build a sustainable and [growing passive income](#).

Growth potential

The prospects for the world economy may be uncertain at the present time. Risks such as a global trade war, Brexit and geopolitical challenges in the Middle East may persist over the coming months. This could cause risk aversion among investors that ultimately produces a slower rate of growth across the property sector.

However, the cyclicity of the property market suggests that buying REITs during such periods could be a shrewd move. It may allow an investor to capitalise on low valuations across the sector, with the track record of the property industry showing that it has historically offered long-term growth.

Clearly, buying REITs today could lead to paper losses should the economic outlook deteriorate in the short run. However, for long-term investors the current valuations available across the industry could make it a worthwhile time to invest.

Diversity

As well as long-term growth potential, REITs also provide diversity to investors. They offer an alternative to direct property ownership, thereby broadening the assets that are held within a portfolio

without the additional risks that being a landlord can bring.

In addition, REITs themselves are usually highly diverse companies. They may, for example, hold a variety of assets from sectors such as leisure, residential and retail. Through buying REITs which specialise in different areas, it may be possible to reduce overall risk and produce a smoother passive income stream.

Income returns

The recent uncertainty for the global property market could mean that many REITs now offer higher income returns than they have done in previous years. This may mean that it is easier now than it has been for some time to generate a positive real-terms income return from an investment in the property sector.

As such, now could be an opportune time to buy a selection of REITs within a portfolio. Not only do they provide a significant amount of diversity alongside a high income return in many cases, their valuations could mean that there is scope to generate capital growth over the long run. Since history shows that buying cyclical assets during periods of uncertainty can produce higher returns in the long run, purchasing REITs today to generate a passive income could prove to be a highly favourable decision.

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