Forget Saving Money! I'd Rather Buy REITS to Retire Early

Description

Real estate investment trusts (REITs) could be a sound means of generating a relatively high income, as well as long-term capital growth.

They provide exposure to a wide range of properties in a variety of segments and locations. As such, their risk is significantly lower than direct property investment.

Furthermore, at a time when interest rates are low and the return on cash savings could be negative when inflation is factored in, REITs provide a higher chance of boosting your financial outlook in order to retire early.

Low interest rates

Since interest rates are lower than their historic average at the present time, holding cash could prove to be a disappointing move. Over the long run, it may lead to reduced spending power that does not increase your chances of retiring early.

Low interest rates, however, could positively impact on the performance of REITs. Since REITs usually borrow to invest in a wide range of properties, low interest rates mean that the cost of servicing their debt may remain at low levels. This could allow them to borrow a larger amount of capital in order to grow their asset base, as well as provide the opportunity for them to generate higher levels of profit.

Of course, higher levels of profit could lead to increasing demand for REITs from investors. The end result of this could be a more generous stock market valuation that ultimately allows shareholders in REITs to benefit from capital growth, as well as the income they receive.

Risks

Clearly, investing in REITs is riskier than holding cash. Property prices could come under pressureover the medium term, while company-specific risks are an omnipresent threat to all investors.

However, REITs generally have a strong track record of growth. Property prices have followed an upward trajectory over previous decades. While there may be short-term challenges facing the sector, over the long run REITs could offer a large amount of capital growth.

Furthermore, REITs are highly diversified businesses. They often own a significant number of properties in varied locations with mixed uses. For example, they may own retail units, office space and residential units that together provide risk reduction. And with investor sentiment having weakened across global stock markets in recent months, many REITs may now offer wide margins of safety that further reduce their investment risk.

Potential rewards

For an investor with a long-term time horizon, taking risks with their capital could prove to be highly rewarding. There is likely to be ample time for a recovery to take place should a short-term stock market correction or bear market take place.

Clearly, investors with a short-term time horizon may be better off focusing their capital on low-risk assets such as cash. But for anyone who is seeking to bring their retirement date a step closer, investing in REITs in order to obtain a relatively high income and growth profile could prove to be a shrewd move.

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