Lazy Landlords: Your $1,000/Month Passive Income Stream Is Closer Than You Think

Description

A friend was recently asking me about purchasing a rental property. Like millions of other Canadians, she dreamed of making a little extra cash each month, and figured renting out a house nearby would be a good strategy.

My advice: don't bother. It's just not worth it.

Owning physical real estate is essentially just buying yourself a part-time job. It's not passive income at all. You're directly responsible for everything from screening prospective tenants to keeping the place maintained to doing up the taxes at the end of the year.

With many Canadians struggling to maintain a healthy work/life balance, obviously adding more to your plate isn't the solution.

My advice to my friend was to load up on a portfolio of Canadian real estate investment trusts (REITs), truly passive investment vehicles that allow an investor to build an instantly diversified portfolio with just a few mouse clicks.

Here's how you can start your own hands-off REIT portfolio that generates $1,000 per month in passive income.

Borrow a strategy from physical real estate

Most landlords don't bat an eye at borrowing huge amounts of cash. A 20% down payment is common for rental properties, yet most wouldn't dream of taking on any leverage at all when buying stocks.

This doesn't make much sense to me, however. After all, REITs are just a bunch of properties combined into one operating entity. The sector is known for being pretty boring, which bodes well for using a little leverage.

Say you have $100,000 to put to work. If you leverage that cash and borrow another $100,000, you'll have $200,000 to invest and pay approximately $3,000 to $4,000 per year in interest. That's a small price to pay to have the capital to generate $1,000 per month in passive income.

An integral part of any passive income REIT portfolio

The next step is to choose the REITs you'll want to own over the long-term. One that's still high on my list is **H&R REIT** (TSX:HR.UN), a diverse behemoth that owns more than $14 billion worth of property.

Holdings include 10.8 million square feet of office space, nearly 14 million square feet of retail space, some nine million square feet of industrial space, and more than 8,500 residential suites.

One of the things that immediately sticks out about H&R is the company's U.S. diversification. Approximately 40% of its operating income comes from south of the border, which provides an added layer of diversification for Canadian investors with too much of their portfolios invested in Canada.

H&R's main growth driver today is its residential segment. The company is spending aggressively on big housing developments in key U.S. markets, taking on partners so it can tackle some big projects.

Current developments include facilities in Long Island Park (a close suburb of New York City), as well as properties in Miami, Long Beach, Seattle, and Austin. H&R has development projects planned for some of its Canadian retail properties, too.

Unlike many REITs, who depend on outside asset managers (who charge fees) for management, H&R has a fully internalized structure.

This saves investors millions in management fees annually. You should also be encouraged by H&R's high insider ownership, with insiders owning some 6% of the company, which is a lot for a REIT.

Finally we have the dividend, a 6.2% yield that offers a solid payout ratio under 80% of funds from operations. That's easily enough to turn a $200,000 investment into a passive income stream worth $1,000 per month.

The bottom line

H&R offers a growing portfolio, diversification across Canada and the United States, shares that trade under net asset value, and one of the safer dividends in the whole REIT sector. It's the perfect choice to add to your passive income freedom fund.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:HR.UN (H&R Real Estate Investment Trust)

PARTNER-FEEDS

1. Business Insider
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Date
2025/07/03
Date Created
2019/11/01
Author
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