RRSP Investors: Retire Early by Being a Passive Landlord!

Description

Owning rental properties allows you to generate rental income, but it's not entirely passive. When your tenant moves away, you need to look for another one. When the tenant contract is about to expire, you need to renegotiate the terms. When the toilet breaks, you need to get it fixed.

If you buy a real estate investment trust (REIT), you've got all that covered with a professional team that follows through with everything. Additionally, REITs are less risky due to their diversified portfolio.

Brookfield Property Partners (TSX:BPY.UN)(NYSE:BPY) has about 19,000 operating employees across 30 offices around the world to help shareholders take care of everything. The REIT is a safe passive-income generator for RRSP investors. So, it can help you retire early.

A quick overview of the company's strategy

Brookfield Property aims for long-term total returns on equity of 12-15%. Currently, it has a core office and retail portfolio that makes up 85% of its balance sheet and aims for total returns of 10-12%. It also has 15% of its balance sheet in opportunistic investments that, in aggregate, target returns of 18-20%.

In its opportunistic portfolio, it owns a wide range of assets, including office, retail, multifamily, industrial, hospitality, triple net lease, self-storage, student housing, and manufactured housing.

BPY expects to sell stabilized or mature assets, particularly in its opportunistic portfolio, to make hefty profits and reinvest the proceeds into higher-return investments. Historically, it's been able to sell assets at greater than their accounting values.

Right now, Brookfield Property offers a whopping yield of 7%. Conveniently, it recently reported its third-quarter results on Wednesday. Let's take a closer look to see how it has been doing year to date.

Recent results

In the first nine months of the year, Brookfield Property's company funds from operations (FFO) and realized gains were down 1.8% largely due to issuing shares to make the acquisition of GGP in August 2018.

As a result, its payout ratio was under 91% of company FFO and realized gains, which is at the high end of its historical payout ratio range.

For Q3, BPY's core office portfolio was doing fine with same-property net operating income (NOI) growth of 2.5% and occupancy of 92.4%. However, growth at the core retail portfolio was flat for the quarter and year to date due to the near-term dilution of the GGP acquisition and bankruptcies from previous tenants.

BPY's recent press release stated, "Since the beginning of 2018, tenant bankruptcies have resulted in over three million square feet within the portfolio becoming vacant, of which nearly 75% will be occupied with new tenants by this year-end and contributing to earnings."

Thankfully, BPY's leasing activity has been positive with rent increases — no doubt thanks to the professional team and its quality assets. In the press release, it said, "Our Core Retail business leased over 10 million square feet over the past 12 months with suite-to-suite NOI-weighted rent spreads of 5.4% … On a year-over-year basis, in-place rents increased 2.4% across the portfolio, and NOI-weighted sales grew 5.4% to $787 per square foot, a new high for the portfolio."

BPY also expects the retail portfolio to be 96% leased by the end of the year, up from 95% at the end of Q3.

Year to date, the opportunistic portfolio generated company FFO and realized gains of US$326 million, up 4.8% year over year.

Investor takeaway

The stock trades at a meaningful discount of about 20%. It also has the financial flexibility to maintain its cash distribution yield of 7%. Down the road, as its portfolio improves and generates higher income, it'll increase its cash distribution by 5-8% per year as it aims to.

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