Lazy Landlords: Start Your Own Real Estate Empire With This 9% Yielder

Description

Many investors want to own real estate but don't want to take on the risks of buying a rental property.

One danger is making an oversized bet on one real estate market, of course. This risk is especially high if you also own a principal residence in the same city. There's also vacancy risk, the danger of a dirt-bag tenant, or, even worse, an unexpected issue causing damage to the property.

This doesn't even factor in your risk of losing all your spare time. Managing your own little real estate empire takes anywhere from five to 15 hours a week, depending on how many units you might have. Sure, the day-to-day stuff can be handled by a property manager, but those folks don't work for free.

There's a better solution. Load up on Canada's best REITs and enjoy a truly stress-free passive-income experience. Let's take a closer look at one such stock — a company that now yields an eye-popping 9%.

The skinny

Slate Retail REIT (TSX:SRT.UN) owns grocery-anchored real estate in the United States, specifically in what it calls "secondary" cities, which includes places like Atlanta, Charlotte, or Pittsburgh. This strategy gives the company a couple of advantages versus focusing on larger cities, including better returns on investment and more opportunities to acquire assets. The portfolio, as it stands today, consists of 76 different buildings and almost 10 million square feet of gross leasable space.

There are a lot of advantages to owning grocery store real estate. Supermarkets are a steady business, which means you know the rent will be paid on time. They generate plenty of foot traffic — something that's attractive to other businesses in the vicinity. And these stores are in good spots to benefit from online grocery delivery.

Slate's shares are quietly down close to 10% over the last couple of weeks, as the issues driving down broader markets have had the same impact on Slate's shares. But when we take a closer look at the business, I don't see any indication this weakness is deserved.

The company just released its full-year results for 2019, and the numbers looked pretty good. It earned US$1.20 per share in funds from operations for the year, a result that was down a tiny bit from 2018's results. The decline was because of a few asset sales that were designed to shore up the balance sheet. The company also renegotiated some of its debt, which will save it US$1.7 million in interest costs in 2020.

Despite consistently solid results during its short life on the Toronto Stock Exchange, Slate Retail shares stubbornly trade for a ridiculously good bargain. As I type this, the stock price is US$9.30. Remember, it generated US$1.20 per share in funds from operations in 2019. That gives us a rock-bottom price-to-funds from operations ratio of 7.8 times. You won't find many stocks cheaper. Additionally, shares now trade under book value — another good sign for long-term investors.

The firm also offers one of the best dividends in the entire real estate sector, with the yield now hitting 9%. You might think such a payout isn't affordable, but it sure looks to me like it can be maintained. Slate's payout ratio for 2019 was just 72% of funds from operations — a number that is lower than many comparable REITs with much lower yields.

In fact, Slate has raised its distribution each year since its IPO in 2015, including a US$0.02-per-share increase in 2019.

The bottom line

Building a passive-income empire will truly change your life. Rather than doing it buying rental properties, I'd recommend loading up on great REITs like Slate Retail REIT instead. All that's left for you to do is sit back, relax, and collect your dividends.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:SGR.UN (Slate Retail REIT)

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