Retire Early on a $300,000 Real Estate Portfolio!

Description

Around where I live, a one-bedroom condo costs at least $300,000. Some people buy these properties to rent them out. However, being a landlord requires work, such as collecting rents from tenants and catering to tenant needs. They might also need to pay strata fees and property taxes as well as pay for utilities like the internet.

By investing in real estate investment trusts (REITs), you can leave all the hard work to the professional management team. Additionally, you can immediately diversify on the first dollar that you invest; after all, REITs own a portfolio of properties.

To potentially retire from REIT investing, the yield that you generate needs to be sufficiently large. A 7.6% yield on a $300,000 REIT portfolio will generate annual income of $22,800. This translates to a nice monthly income of $1,900.

Here are two REITs that average a yield of 7.6% today.

NorthWest Healthcare Properties REIT provides a 6.8% dividend

NorthWest Healthcare Properties REIT (TSX:NWH.UN) reported its Q2 results on August 24. For the quarter, it collected rents or made rent deferral arrangements on 97.6% of its revenues. It noted that only 4% of its annual gross rents had deferral arrangements, which spanned 379 tenants and were largely in Canada and Australasia.

The healthcare REIT, which owns 189 properties of primarily hospital, outpatient, and medical office buildings, remains defensive during the pandemic, as it generates more than 80% of its revenues directly or indirectly from public healthcare funding.

Based on a high and stable occupancy of 97.4%, a normalized adjusted funds from operation payout ratio of 87%, a weighted average lease expiry of about 14 years, and fee-bearing capital of $8.4 billion, it has what it takes to maintain its cash distribution.

Sienna Senior Living offers an 8.4% dividend

Sienna Senior Living (TSX:SIA) manages 83 residences — 52% in long-term care and 48% in retirement — including 70 properties that it owns.

It reported its Q2 results on August 12. Revenue dropped 2% to under $163 million, while net operating income and adjusted funds from operations per share declined 20% and 33%, respectively.

Not surprisingly, its payout ratio was elevated to 94.4% for the quarter against Q2 2019's 62.5%. It had lower occupancy. Specifically, its long-term-care portfolio occupancy remained above 92%, while its retirement portfolio occupancy was about 81%.

It also had additional expenses in response to the pandemic, but government funding covered 70% of the costs, allowing Sienna Senior Living to save a substantial $24.9 million for the quarter.

Sienna Senior Living has operated for 48 years. With its extensive experience, it had no active cases of COVID-19 as of August 11.

At the end of the quarter, Sienna Living had liquidity of $240 million and an investment-grade credit rating of BBB from DBRS. However, it has debt maturities of $286 million in 2021, which is something that investors should keep watch of.

SIA Dividend Yield data by YCharts.

The stock is undervalued with the average analyst 12-month price target of $14, which is 27% higher. The stock's relatively high yield to its historic yield range also indicates a cheap stock.

The stock is cheap for a reason. The pandemic is a headwind, but when the event comes to pass and Sienna Senior Living's profitability improves, it should be able to trade at that $14 level.

The Foolish takeaway

Investing $150,000 in each of NorthWest Healthcare Properties REIT and Sienna Senior Living will generate $1,900 of passive monthly income. Combining that with any pension funds and old age security funds that you may get, it can quickly turn into a comfortable retirement.

Investors can also save taxes by considering a portion of the shares in their Tax-Free Savings Accounts.

CATEGORY

1. Coronavirus
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TICKERS GLOBAL

1. TSX:NWH.UN (NorthWest Healthcare Properties Real Estate Investment Trust)
2. TSX:SIA (Sienna Senior Living Inc.)

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