How I’d Invest in REIT Stocks to Earn a Passive Income

Description

REIT stocks experienced a mixed 2020. Many of them delivered falls in their valuations as a result of changing demand among consumers and businesses. For example, offices and retail units are in lower demand as working from home becomes more popular.

However, the wider property sector could experience an improving performance as the economic recovery takes hold. With many trusts trading at low prices, now could be the right time to buy them to make a generous passive income.

The prospects for REIT stocks

As with many companies, the prospects for REIT stocks continue to be relatively uncertain in the short run. The coronavirus pandemic is putting pressure on retailers and a variety of other businesses. This may mean that some landlords face rent collection challenges that put their financial outlook under a degree of pressure.

However, on a long-term view, investing in the property sector could be a shrewd move. The industry could benefit from a likely economic recovery over the coming years that provides improving confidence among businesses and consumers. The end result could be stronger financial performances from property companies.

Many REIT stocks may also have the financial strength to adjust their asset portfolios to adapt to changing demands within the commercial property sector. For example, they may be able to invest in flexible office space or warehousing, or shift their focus towards new market segments that provide stronger growth prospects over the coming years.

Investing in listed property stocks today

When investing in REIT stocks, it is crucial to ensure there is sufficient diversity. Some companies are focused on one specific area, such as retail units. Therefore, it could be worth buying multiple stocks so that an investor has exposure to a broad range of assets in different market segments and locations. This may produce a more resilient passive income that is likely to grow at a faster pace over the long run.

Meanwhile, buying property stocks at a discount to their intrinsic values could be a shrewd move. Even though the sector has recovered to some extent from the 2020 stock market crash, it is still possible to purchase REIT stocks at low prices. In some cases, they may even trade at a wide discount to their net asset value. Cheaper stocks can provide greater scope for high returns in the long run.

Of course, in the short run a number of companies could experience further challenges. Risks such as the coronavirus pandemic are known unknowns that may yet have a negative influence on the economy’s outlook in the early part of 2021. As such, it is crucial to adopt a long-term outlook on REIT stocks. Over the coming years, their low valuations, diverse portfolios and recovery potential could produce a growing passive income.

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peterstephens