Buy a REIT: The Easy Way to Collect Rental Income

Description

Real estate is one of the most well-known and well-understood investment assets. Even people who don't know anything about the stock market, commodities, funds, etc., might know the basic premise of how real estate investment works. But it's not for everyone, and the chief barrier is the high cost.

But there is another reason. Managing real estate as a landlord requires you to take a more "active" part in your investment than many investors are comfortable with. And if you hire someone else to do it, the services will cut into your rental income.

REITs are a great and easy way to become a "landlord" with most of the upside and relatively few downsides. As a REIT investor, the dividend income will fall in your bank account more promptly and almost always on time far more easily than rental income would.

But the best part, perhaps, is that you can invest in real estate asset classes to which you might not have exposure as a real estate investor. Take healthcare properties as an example. They are a niche market within commercial real estate and based on how stable and evergreen the healthcare business is, they are also more reliable than many others.

One REIT that gives you exposure to this asset class is **NorthWest Health Properties** (TSX:NWH.UN).

The REIT

NWH has a portfolio comprising 190 income-producing properties worth about $8.3 billion and spread across three regions: the Americas, Europe, and Australia, where the bulk of the portfolio is concentrated (about 55%). The occupancy rate of 96.7% promises stable income, which in turn promises reliable dividends.

And the geographic diversification of the portfolio is not the only feather in NWH's cap. The REIT also has long-term relationships with some of the most well-known healthcare providers in the world. The portfolio leans more towards hospitals and healthcare facilities, and about 39% of it comprises medical office buildings and life sciences.

The “rental” income

Let’s say you can pay for about 50% of a $600,000 condo in Toronto and get the rest of it financed. The rent you will most likely collect on that property will be barely enough to cover the mortgage payment for a 10-year fixed mortgage. You might start seeing a positive rental yield in due time, but it would be a whole decade before you can benefit from the full rental income.

Instead, if you invest the $300,000 (50% of the price) in NorthWest, the 6% dividend yield would result in a monthly income of about $1,500, which is more than the average rent for a one-bedroom apartment. It’s a rental income that you can start right away and doesn’t require any active participation in management from you.

Foolish takeaway

The REIT has sustained its dividend through the brutal payout ratio of 359% in 2018, and the payout ratio didn’t exceed 100% during 2020. This indicates the financial stability sustaining the dividends. You might not see any dividend growth with this dividend stock since the company hasn’t grown its dividends in the past five years, but you are likely to experience modest capital appreciation.

CATEGORY

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TICKERS GLOBAL

1. TSX:NWH.UN (NorthWest Healthcare Properties Real Estate Investment Trust)

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