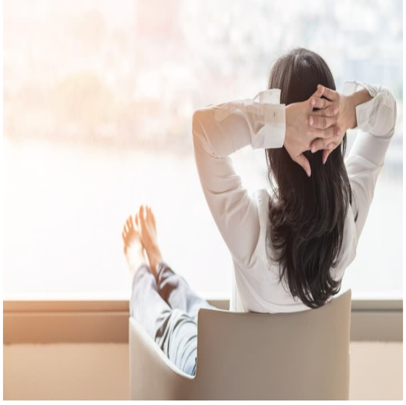

Become a Laidback Landlord Easily With Canadian REITs

Description

A lot of money and work go into owning a rental property — there's the down payment, mortgage payments, including interest expenses, property maintenance, tenant management, property tax, insurance costs, etc. If you have multiple properties, you'll have to multiply all that. Property management in itself quickly becomes another job, unless you enjoy it or hire someone else to do the work, thereby increasing the cost of operating your rental properties.

If it's too much work or too expensive to manage your rental properties, you can look into becoming a laidback landlord through investing in Canadian REITs. It need not be one or the other. For example, you could have rented out a condo and spread the risks of your real estate investment portfolio by diversifying into REITs.

What is a REIT? Most Canadian landlords own a residential property. It's less or not accessible for retail investors to earn rental income from grocery stores, hospitals, warehouses, data centres, self-storage properties, etc. Buying REITs can fill some of this void.

H&R REIT

H&R REIT (TSX:HR.UN) is a diversified REIT that's under a major, multi-year transformation. In its first-quarter results that was reported earlier this month, management highlighted that the REIT traded at a significant discount to its net asset value (NAV) of $21.06 per unit. At $13.20 per unit at writing, it's a substantial discount of 37% from its NAV. H&R REIT is becoming more focused on the higher-growth asset classes of industrial and residential real estate.

The REIT provides exposure to residential properties in the U.S. sunbelt region and a growing industrial properties portfolio. The company is going in the right direction by reducing its exposure to retail and office properties.

Additionally, it raised its cash distribution by 5.8%. Consequently, the undervalued stock offers a yield of close to 4.2%. Its 2022 funds from operations (FFO) payout ratio is estimated to be sustainable at about 48%. The relatively low FFO payout ratio provides a good margin of safety for the REIT that's going through massive changes.

Positively, H&R REIT's recent occupancy is high at 96.0%. In the first quarter, its same-property net operating income growth was 19.1%, driven by strong rental growth in residential and office combined with industrial and retail property lease-ups, for which it attracts tenants and reach stabilized occupancy in newly constructed properties that are close to completion.

The company has a robust balance sheet. Furthermore, having liquidity of $931.5 million, including $103.0 million in cash, at the end of the quarter, H&R REIT has the financial flexibility to proceed with its transformation.

The Foolish investor takeaway

Canadian REITs are a great way to invest easily in real estate whether you're diversifying away from your own rental properties or solely choosing passively investing in REITs. There are different industries for your choosing. By selecting a basket of REITs, Canadians can quickly put together a diversified real estate investing portfolio.

H&R REIT is an interesting idea for monthly income. A growing exposure to residential and industrial properties should drive the stock to command a higher multiple down the road. Currently, analysts believe the discounted REIT has upside potential of approximately 30% over the next 12 months.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:HR.UN (H&R Real Estate Investment Trust)

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