This Stable, Undervalued REIT Offers Some of the Highest Passive Income

Description

Motley Fool investors continue to seek out passive income through real estate investment trusts (REITs) lately. And it's a solid place to look, even with the housing market as it is. There are some stable industries that will continue paying out dividends, even with the housing market and economic downturn underway.

However, Motley Fool investors should also know by now that investing should be long term — especially when it comes to market downturns. It can be really difficult to look at how your investments are doing during a market correction or even crash. But if you think long term, these provide you with solid opportunities for immense growth over the years.

Still, it's nice to have passive income from a stable REIT during this time as well — especially one that has so much growth potential in the future. And for that, I would look at **Canadian Apartment Properties REIT** (TSX:CAR.UN).

Focused, yet diversified

What I like about CAPREIT is that the company is focused on the apartment sector and yet is still diversified. This comes from a global investment portfolio rather than focusing all in Canada. At the time of writing, the company is one of the largest REITs with a market capitalization of $7.86 billion. It owns about 57,000 suites in Canada and about 5,800 in the Netherlands. It manages even more, which includes 3,800 in Ireland.

But what investors should really like about this company is that it has a focus on the apartment and rental sector. Inflation hasn't just hit goods but also housing — especially rental housing, as there is an increasing demand for it. With the cost of owning a house climbing higher and higher, the demand for renting is also at an all-time high. This means landlords are now increasing their rents and lease agreements.

This creates a stable way for investors to bring in passive income from a company like CAPREIT. You can look forward to growth from the industry and growth from its dividend.

Value

This company also offers value while you collect passive income. Shares are down 24% year to date, and it now offers a 3.24% dividend yield. While there are other REITs with higher yields, they don't have a higher per-share dividend. This comes out to $1.45 per share annually, which is dished out each month. Furthermore, that dividend has grown at a compound annual growth rate (CAGR) of 2.69% over the last decade.

As for its share price, the fall in shares has been good for those seeking value. CAPREIT now trades at a significantly low cost of 5.9 times earnings and 0.8 times book value. Further, it offers a total debt-to-equity ratio of just 0.62, with plenty of room to cover its debts. So, this is a strong company to consider for your long-term investments.

Adding it up

If you take into account the dividend and the share drop, you should also look at where CAPREIT is headed. Analysts give it a target price of $62 as of writing. That would come to a potential upside of 41% right now. Yet even if the market dips further, which it probably will, you'll be bringing in some of the highest passive income from this stock each and every month.

How much could that be? Let's say you were to buy the stock right now with $5,000. That would bring in annual passive income of about $165 per year, or about $14 per month. If you waited until share prices increased to its target price, that drops to $117 per year or $9.50 per month! That is why now is the right time to pick up this undervalued stock.

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1. TSX:CAR.UN (Canadian Apartment Properties Real Estate Investment Trust)

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Date
2025/08/16
Date Created
2022/07/04
Author
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