Beginner Investors: Get Passive Income by Investing in REITs!

Description

Are you looking to earn passive income on the stock market? If so, real estate investment trusts (REITs) are worth looking at.

REITs are real estate investment firms that trade like stocks. Legally speaking, they're more similar to mutual funds than stocks, but, in practice, they are companies you can buy partial ownership in.

REITs are known for having very high yields. **iShares S&P/TSX Capped REIT Index ETF** has a 3.65% yield, and that's a very diversified fund holding many assets. You can find individual REITs with higher yields than the big funds have.

If you're looking to add passive income to your portfolio, investing in REITs could be a great way to achieve your aim. In this article, I will explore some of the reasons why REITs provide so much passive income and mention some REITs that I find interesting.

Why REITs produce so much income

REITs typically produce high dividend income because they are required to by law. In order for a business to qualify as a REIT, it has to pay out a very high percentage of earnings as dividends. The actual amount varies by country but is usually around 90%. As a result of this rule, REITs always have very high payout ratios — that is to say, high percentages of earnings paid as dividends.

Technically, a high payout ratio isn't a good thing. When a company pays out a high percentage of its earnings as dividends, it is at high risk of having to cut its dividend when things go bad. Note, though, that REITs can achieve their required 90% payout ratio based on taxable income. Their payout ratios are often more modest when calculated with cash flows rather than earnings.

Some REIT investments to consider

If you're looking to start investing in REITs, you could always consider an exchange-traded fund (ETF) like the iShares fund I mentioned at the start of this article. Such investments remove some of the risks inherent in holding individual stocks and are often recommended to beginner investors.

As far as individual REITs go, check out these ones:

Northwest Healthcare Properties REIT (TSX:NWH.UN) is very interesting. It's a healthcare REIT that rents out office space in Canada and Europe. Canada's healthcare system, as you know, is largely publicly funded. The same is the case in much of Europe. This means that Northwest Healthcare's tenants are backed by government revenue, giving them unparalleled ability to pay.

The proof is in the pudding: in 2020, when companies were going bankrupt left and right, NWH.UN collected a 97.5% share of a typical year's rent. So, it wasn't hit as hard by the pandemic as mall REITs or even residential REITs.

Another REIT that looks interesting is **Killam Apartment REIT** (TSX:KMP.UN). It's an apartment REIT that has properties on the East Coast. The Eastern provinces (Newfoundland, New Brunswick, Nova Scotia) are among the few not seeing property values going down this year, so Killam's portfolio value is likely to remain fairly high. This REIT also has a decent occupancy rate and achieved 118% growth in profit in its most recent quarter.

CATEGORY

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

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