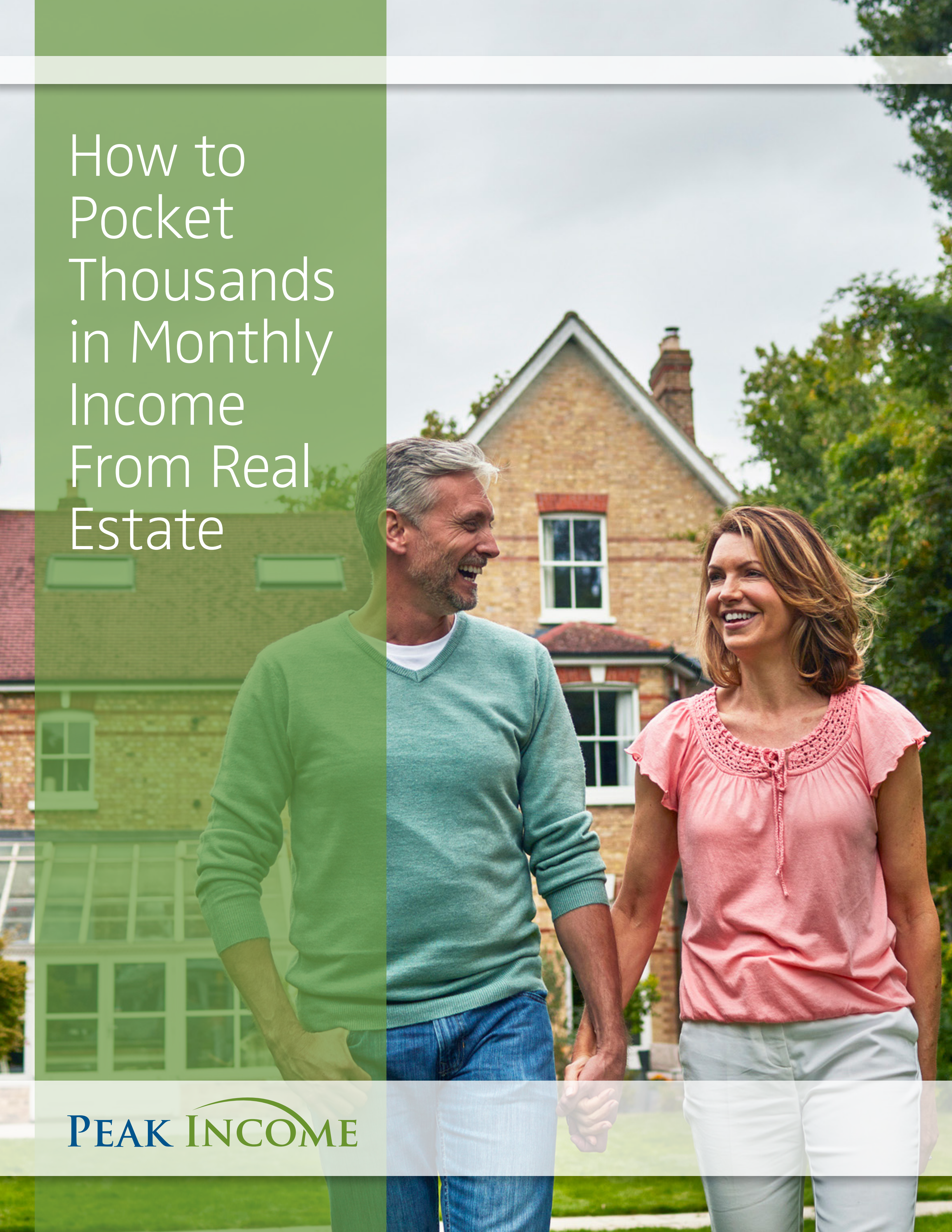
How to Pocket Thousands in Monthly Income From Real Estate



PEAK INCOME

How to Pocket Thousands in Monthly Income from Real Estate

By Charles Sizemore, Editor, *Peak Income*

We've always been told that it's the American Dream to own your own home. People go to work at their 9-to-5 jobs in the hope that they can afford to come home to a two-story colonial with a perfect white picket fence.

Don't get me wrong — that sounds picturesque. And if that's the kind of lifestyle that you've enjoyed over the years, I say good for you.

But as you're probably aware, that's not the end of the story. You've surely heard real estate touted as the next great investment opportunity.

It's easy to get a loan for an investment property… you'll be able to buy low and sell high if you work on a fixer-upper… real estate has a tangible asset value… it's a great inflation hedge… and it'll provide stable income returns if you choose to rent out your property.

But what if you don't want to deal with the burdens of being a property manager?

Think about it. When you own property, everything is your responsibility. If your tenant calls and tells you that a pipe burst in their kitchen, it's on you to shell out money for that repair. The roof is leaking? Guess what — that's your problem, not theirs.

And how well do your clients understand the finer points of your lease agreement? Chances are, you'll have to deal with a compliance issue or two… or several.

Then there's the fact that most states require you to have either a Real Estate Broker License or a Property Management License before you can even think about renting out your apartment complex or office space.

And lastly, there's the small — ahem, huge — fact that we're in a housing bubble both here and abroad. My friend Harry Dent has warned about this for years, and he even thinks that real estate could crash harder than it did in the 2008 meltdown.

So why the hell would you want to give yourself that kind of headache? Are any small real estate profits you could skim from the endeavor worth all of that aggravation?

No, they're not! But I'm here to tell you that you don't have to go to all that trouble.

That's because, as I've told my *Peak Income* subscribers the last few years, I've found a way to invest in real estate that bypasses the headache using an often overlooked part of the market called Real Estate Investment Trusts. (REITs).

By owning one or more of these — and I give you five in particular in this report that are worth buying today — you'll be able to skip the headaches of owning real property while collecting fat paychecks every month at significantly less risk than a traditional property manager, but while enjoying the same diversification and benefits.

Use REITs to Secure Your Financial Future

A Real Estate Investment Trust — a.k.a "REIT" — is a company in the business of owning and operating real estate. They're generally publicly traded (though some are privately held) and they usually own income-producing properties such as office buildings, stores, apartment buildings, and shopping centers.

Other types of REITs own hospitals and nursing care facilities, and some even own real estate loan portfolios. These portfolios can consist of just a few properties or hundreds of them. And they make profiting from real estate easy.

You get professional management and a degree of diversification that would be impossible if you were buying individual properties yourself. This makes owning REITs a lot less risky than trying to become a real estate mogul on your own.

Even better, they are what's called pass-through investment vehicles. This means they must distribute at least 90% of their income to shareholders as dividends each year to avoid paying double taxes!

Over the last 20 years, the average annual returns are a little over 11%, while the S&P only returned 9.85% and the Russell 2000 returned 9.63%. I'd be willing to bet your return on any rental property was even less, while being an immense pain in the ass.

Take a look at your members-only page — where you'll find monthly issues, buy and sell alerts, my weekly updates and answers to reader questions — to see what I mean.

REITs are one of the best ways to secure the financial future and dream retirement you've always wanted. They allow you to increase your monthly dividend payments by earning passive real estate income AND dabble in the real estate market without the usual hassle.

Of course, you can't just invest in any-old REIT. You've got to be selective. So, to get you started, I've uncovered five that you should add to your portfolio immediately.

These five REITs currently average a yield of 6.3% while the average REIT yields 4.3%. A 2% difference might not seem like much, but it can make a huge difference over the long haul — when you take dividends and compound interest into account.

Say you invest $20,000 in these five REITs and decide to reinvest the dividends… In 10 years, with the power of compound interest, you will have generated more than $15,000.

In 20 years, you'd have close to a $45,000 return and more than $64,000 overall including your original investments, more than triple your $20,000, all while netting close to double per month than you were 10 years earlier.

With average REIT returns, after 10 years, your returns would be two-thirds ($9,604.90) of that and after 20 years, close to half ($23,822.49) of what they would be with my hand-picked REITs.

My Top 5 REITs

1. The "Holding Company for Real Estate"

Warren Buffett has a net worth of $86.7 billion. And he amassed it through his company Berkshire Hathaway. In case you aren't familiar, they're a holding company. They don't produce soft drinks, or iPhones, or any other widget.

Instead, Berkshire Hathaway buys shares of other businesses that they believe have good long potential. Right now, they're the majority owner of Geico, Dairy Queen, Fruit of the Loom, Kraft Heinz Company. And they hold minority stakes in American Express, Wells Fargo, Coca-Cola, Bank of America, and Apple.

In other words, they invest in the cream of the crop. And when you buy their shares you automatically become a stakeholder, too.

Well, I've identified the real estate version of Berkshire Hathaway. They own and operate buildings in some of the most lucrative markets including New York, Boston, and San Francisco. As well as minor markets like Allen, Texas; Green Bay, Wisconsin; and Concord, North Carolina.

With no more introduction, let me introduce you to the **Cohen & Steers REIT and Preferred Income Fund (NYSE: RNP)**.

By buying RNP, you'll automatically become a "virtual landlord" in some of the very best properties across the U.S.

Now, let me start by saying RNP's portfolio is split roughly evenly between REITs and preferred stock.

In you're unfamiliar, preferred stock can be thought of as a hybrid between a stock and a bond. Like a bond, it pays a fixed rate. But like a stock, there's no fixed maturity, and failure to pay a dividend does not constitute a technical default.

For our purposes, you can think of preferred stock as a slightly more aggressive bond with no set maturity date.

RNP's preferred stock exposure is heavily weighted to banks and insurance companies, which makes sense.

Financial firms tend to be heavy issuers of preferred stock because it's considered equity for the purpose of calculating capital ratios – keeping their debt levels low enough to keep the regulators happy – yet it doesn't dilute shareholders like issuing new common stock would.

RNP's REIT portfolio is well diversified across subsectors. Apartment REITs make up the largest chunk at 19% of the portfolio, with office REITs and data center REITs chipping in another 12% and 9%, respectively.

Importantly, RNP has low exposure to mall REITs, which have been pressured by the relentless growth of online shopping. And to the extent RNP does have exposure to malls, it's primarily via the strongest player in the sector, Simon Properties Group, which is the fund's second largest holding at 2.9%.

RNP Top-10 Holdings

Name	Sector	Allocation
Prologis Inc.	Industrial	3.0%
Simon Property Group Inc.	Regional Mall	2.9%
Equinix Inc.	Data Centers	2.6%
Equity Residential	Apartment	2.5%
Crown Castle International Corp.	Infrastructure	2.0%
Digital Realty Trust Inc.	Data Centers	2.0%
Essex Property Trust Inc.	Apartment	2.0%
Extra Space Storage Inc.	Self Storage	2.0%
UDR Inc.	Apartment	1.8%
Host Hotels & Resorts Inc.	Hotel	1.7%

Source: Company filings as of 3/31/2018

Take a look at RNP's top-10 individual holdings.

You'll notice that no single stock makes up more than 3% of the portfolio. I like that. The portfolio managers — Thomas Bohjalian has run both funds since 2006, and Jason

Yablon has co-managed the funds with him since 2012 — aren't making aggressive bets on individual REITs. In fact, RNP's top 10 look awfully similar to the same top holdings you'd find in any REIT index fund.

In other words, in RNP we're getting a nice sampling of the REIT asset class. And that's exactly what I'm looking for.

RNP currently pays out a 8.29% dividend yield and is trading a discount to net asset value of 10%.

Action to Take: Buy the Cohen & Steers REIT and Preferred Income Fund (NYSE: RNP) at market.

2. The #1 Destination for Retiring Seniors

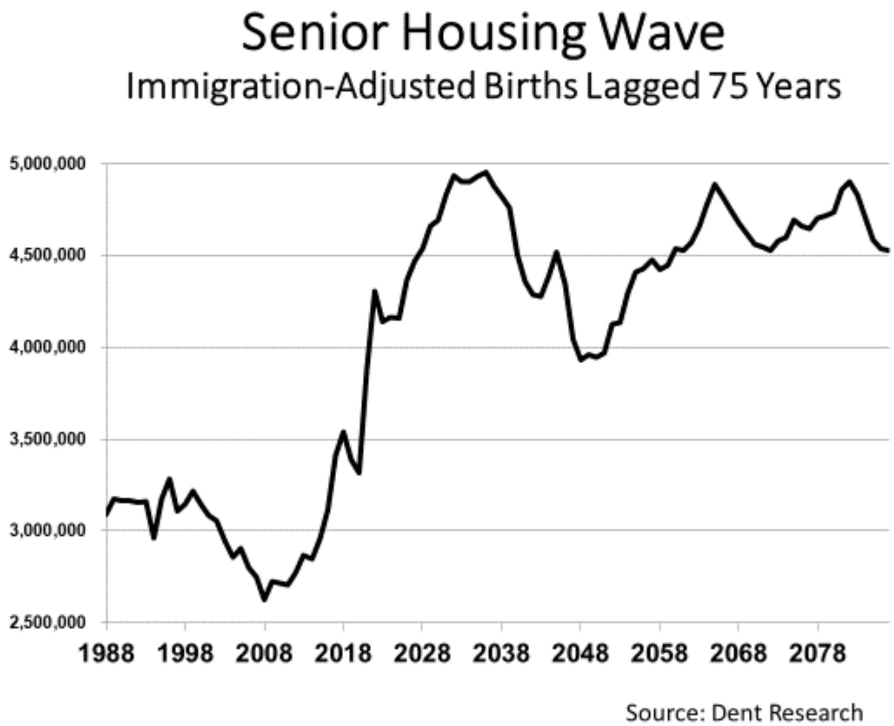
Everyone knows the generation is getting older and that their aging will create a boom in senior living properties of all stripes. It's not exactly a secret. This is the largest generation in U.S. history, for crying out loud, and we've had decades to get ready for this moment.

Yet it's remarkable how poorly this trend is understood.

The largest cohort of the Boomers were born between 1957 and 1961, putting them at 57 to 61 years old today.

Hey, at 57 you're not exactly a spring chicken. I'm in my early 40s, and I already have two bum knees, a bum shoulder and a lower back that's prone to going out on me. Age is a brutal mistress.

But in your late 50s and early 60s, you're at the prime of your career, enjoying your peak years of power and influence. Retirement is definitely on your mind, but you're *far* too young to be playing shuffleboard at the old folks home or to be ordering the 4 p.m. dinner special at Luby's.



There was a massive wave of senior living property construction in the mid-2000s, at a time when demand growth was actually *falling*.

American births fell dramatically during the Great Depression, and these Depression-era babies were entering their mid-70s, the peak age at which Americans consider moving into senior housing facilities.

Not surprisingly, vacancy at many of these properties has been high, and rent growth has been modest at best.

It wasn't until around 2010 that the demographics really turned favorable. And, even today, in 2018, we're really just starting the massive upward slope.

There is very clearly an investable trend here.

While most people still choose to grow old in their own homes or move in with family, over the next 20 years millions of American seniors will opt to move into a senior living property.

We want to find the landlords that have had the discipline to maintain profitability during the lean years while also positioning themselves to profit from the boom.

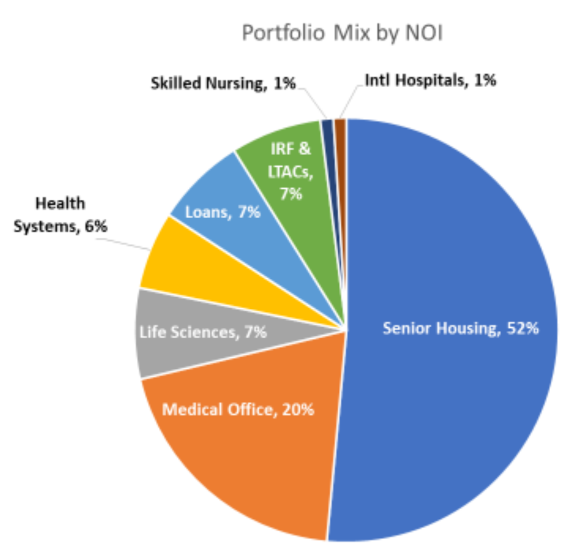
I've found exactly that landlord: health and senior living REIT **Ventas (NYSE: VTR)**.

There's a lot to like here. To start, Ventas is large and stable. The REIT has a $20 billion market cap, a strong balance sheet, and an investment-grade credit rating from all three major ratings agencies.

This is a company that has been around since 1998, long enough to experience its ups and downs and strong enough to prosper through whatever comes next.

Ventas was the only healthcare REIT to be included in *Fortune's* "2018 World's Most Admired Companies" list, and it has experienced hands at the wheel. CEO Debra Cafaro has run the company since 1999, when its market cap was about $200 million and it was in dire financial shape, and grew Ventas into the best-in-class operator it is today.

The Right Mix of Properties



Source: Company Filings

Ventas' portfolio is as noteworthy for what it *doesn't* include as what it does. Ventas gets 52% of its net operating income from senior housing properties and another 20% from medical office buildings.

Life sciences (i.e. research and development facilities) and health systems make up another 7% and 6%, respectively. Loans and inpatient rehab hospitals and long-term acute care centers (IRF & LTAC) also chip in another 7% apiece.

Very conspicuously underweighted is skilled nursing (i.e. nursing homes), which makes up only 1% of net operating income.

This is a big deal.

Skilled nursing is a *tough* business to be in these days. In addition to being tightly regulated and chronically at risk of lawsuits, labor costs are rising due to the tight job market. Meanwhile, stingy Medicare and Medicaid reimbursements have crimped revenues.

Operators need to hire more staff to improve the quality of care yet find that to be all but impossible given current revenues. And they can't simply raise prices like any normal business would do because the government effectively dictates the price.

It's a legitimate crisis. Earlier this year, ManorCare, the second-largest nursing home operator in America, filed for bankruptcy. And it was very nearly joined by the *largest* operator, Genesis Healthcare. Genesis only avoided bankruptcy because its landlords agreed to restructure its commitments.

What a nightmare business to be in. Costs are spiraling due in part to the expense of government regulation, and the same government that made the regulations also refuses to pay anything close to market rates for the services rendered.

Eventually, the government will be shamed into fixing this mess. But it will probably take evening news footage of elderly nursing home patients being booted out of their beds to make that happen.

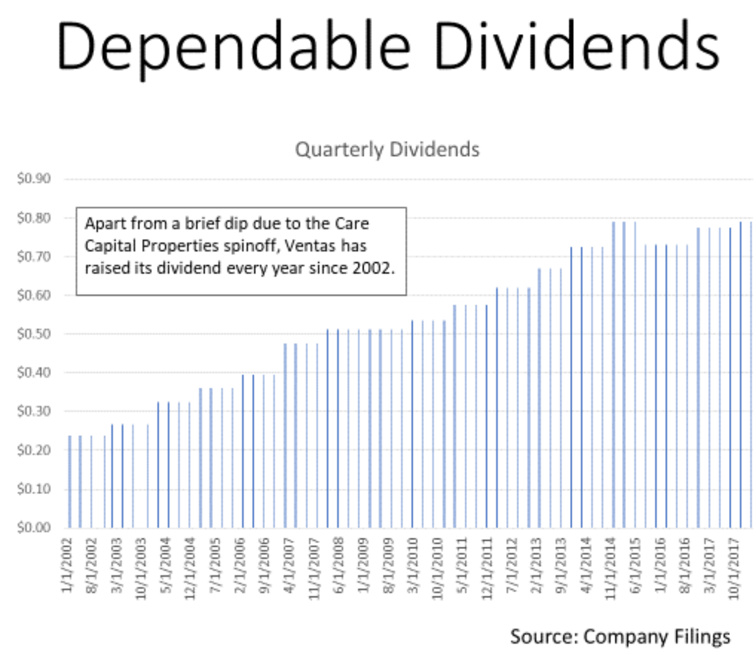
In the meantime, it's best to simply steer clear of the sector.

And that's where Ventas' experienced leadership really shines. Back in 2015, Ventas foresaw the nursing crisis and got ahead of it by spinning off its large portfolio of nursing home properties.

So, while many of its competitors have been bogged down with struggling nursing-home operator tenants, Ventas has been free to grow its other business lines.

Ventas sports a very respectable dividend yield of 5.9% at current prices, more interesting to me is the fact that the REIT has been a dividend raising machine since 2002.

Apart from a very brief reduction in 2015 due to the skilled nursing spinoff, Ventas has raised its dividend like clockwork over the past 16 years. The dividend has more than *tripled* since 2002, and this included the brief hiatus in 2015.

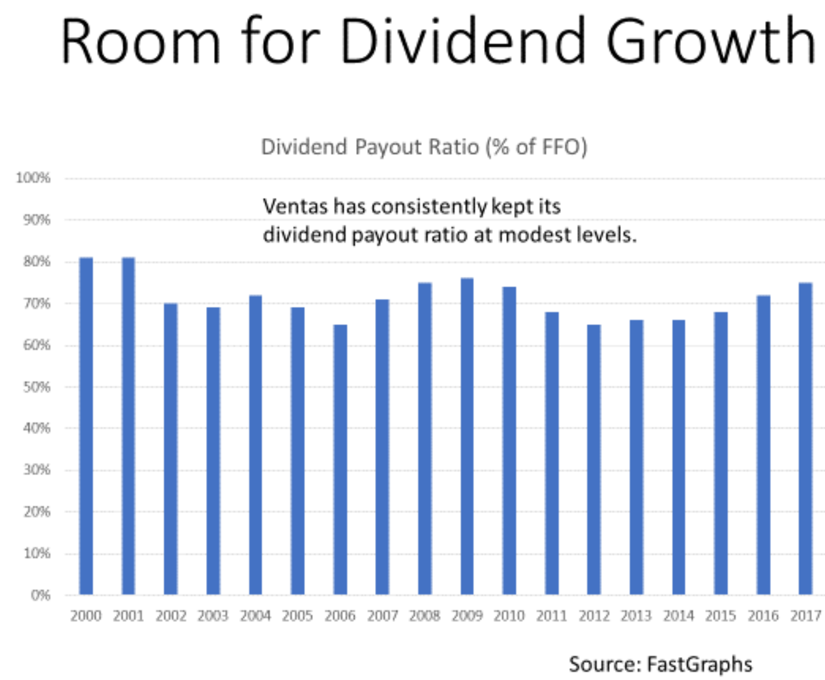


And based on current payout levels, there's still plenty of room for growth.

REIT accounting is a little funky, using "funds from operations" (FFO) as opposed to standard GAAP earnings per share. This is because REITs generally have large non-cash expenses like depreciation that lower earnings on paper but still leave plenty of cash on hand to fund dividend payments.

A REIT that's paying out 90% or more of its FFO as dividends is not likely to be a big dividend raiser going forward. In fact, any setback could cause the REIT to *cut* its dividend.

Ventas consistently keeps its dividend payout ratio below 80%, and as of the end of last year the ratio was sitting at a very healthy 75%.



So, what kinds of returns should we expect from Ventas?

Simply returning to its old 2016 highs – something that would seem likely in light of the favorable demographic tailwinds – would deliver price returns of 28%. Adding to that a year's worth of dividends, and you're pushing 34%.

Frankly, I'd be happy if returns ended up being half that good. But assuming the interest rate picture remains benign and investors continue to move back into the REIT sector, I believe returns of 20% to 30% in the next year are highly likely.

Action to Take: Buy shares of Ventas (NYSE: VTR) at market.

3. The Stealth Play on the Senior Housing Market

I've also spotted another little-known player in the senior housing scene that could explode onto the scene at any moment.

This property manager currently holds just 200 properties in 28 states. But they're still worth a whopping $2.3 billion.

That’s small potatoes compared to the opportunity to VTR’s 1,200-plus properties.

But in the coming months and years, they could go on an acquisition spree and become leader in the senior housing category.

I’ll be honest, this one is a little more speculative. But if you can stomach the volatility, the reward might be worth the ride.

The upside potential for **LTC Properties (NYSE: LTC)** is enormous.

LTC is a long-term care REIT. With 76 million Boomers reaching retirement in the next decade, by 2020, 12 million will need long-term care.

LTC has been around for over 25 years. It invests primarily in senior housing and long-term healthcare property types, including skilled nursing properties, assisted living properties, and independent living properties.

As I mentioned earlier, skilled nursing can be a tough business to operate in. But LTC manages this risk by focusing on private-pay clients. A solid majority of LTC’s cash flows come from private payors and <u>not</u> from Medicare or Medicaid. That’s the only way to survive and thrive in this business.

LTC has a well-balanced geographic footprint. Texas has the highest concentration (17.8%), followed by Michigan (14.5%) and Wisconsin (8.2%).

Michigan is the second largest state for LTC, and that is due to the company's loan portfolio. In Michigan, most healthcare REIT deals are done as loans due to the state Medicaid reimbursement regulations.

LTC pays a current dividend of 5.35% and has hiked its dividend in each of the last six years.

Action to Take: Buy shares of LTC Properties (NYSE: LTC) at market.

4. The Outlet King of America

Every market has a king. A company that's clearly head and shoulders above everyone else. With sodas there's Coca-Cola. With sports apparel it's Nike. And with search it's Google.

Well, the Outlet King of America is the clear leader in outlet shopping malls.

They've had a 97% occupancy rate since 1993.

They own premier locations in major tourist destinations that are close to hotels and other attractions.

So, retailers practically beg them to take their money so they can setup shop in their outlet malls.

Tanger Factory Outlets (NYSE: SKT) is a REIT that owns 44 upscale outlet shopping centers spread across 22 states and Canada totaling over 15 million square feet of retail space.

You might have been to one yourself.

Tanger counts Nike, Under Armour, and Polo Ralph Lauren among its largest tenants.

And while the past few years have been a rough patch for retailers, Tanger continues to see robust rent growth. And that's just one reason to buy shares of this REIT.

Tanger is an absolute bargain at current prices, pays a 6.4% yield, and has raised its dividend for 25 straight years. We're not here for capital gains primarily, but with them, I could see us banking a whopping 60% on this trade.

The past few years have been a rough patch for retailers, and Tanger has seen a few tenant bankruptcies. Yet occupancy remains exceptionally high, and Tanger continues to see robust rent growth.

Yet this hasn't stopped the stock from taking a brutal beating over the past two years. Shares today trade about 40% below their 2016 highs.

Some of the drop is understandable. Tanger was a high-flying growth REIT that has since come back down to earth.

Vacancies have ticked up slightly, and same-center tenant net operating income fell about 2% last quarter as a result.

As I said, it's been a rough market for retail. But it's also nothing to worry about. A difficult retail environment makes outlet malls more important to retailers, and Tanger has no problem replacing its struggling tenants with stronger ones.

Meanwhile, Tanger is an absolute bargain at current prices.

The shares trade hands at just 10 times trailing funds from operations (FFO), a common metric used to measure REIT earnings. To put that in perspective, the average REIT trades for about 16 times trailing FFO.

And Tanger's dividend yield, at 6.1%, makes it one of the highest-yielding mid or large-cap REITs on the market today.

Whenever I see an exceptionally high dividend yield, the first thing I want to know is if it's safe. And in Tanger's case, I can answer with an enthusiastic yes.

Even after a lousy couple quarters, Tanger's dividend represents only 64% of funds available for distribution (FAD) and 59% of funds from operations. (FAD is a more conservative way to measure to measure the cashflow actually available to pay dividends.)

Things would have to really get bad for Tanger's dividend to be at any significant risk.

Tanger also continues to grow its dividend like clockwork, boosting its dividend by 2.2% last quarter. This marks the 25th consecutive year that Tanger has raised its dividend.

That means more income for you.

Even with no change in stock price, Tanger should give you at least 6.1% in dividends. But if the REIT manages to trade in line with its peers at 16 times FFO, we could see a whopping 60% in capital gains too.

That might not be realistic over the next year or two given the bearishness towards retail right now. But let's say the shares get halfway there, rising from 10 times FFO to 13 times FFO. You'd still be looking at roughly 30% in capital gains *plus* the 6.1% dividend.

Total returns of 36.1% to 66.1% returns in a boring conservative REIT are hard to beat. And given that the shares are trading at a bombed-out price not far above 2008 levels, I see little in the way of downside here.

Action to Take: Buy shares of Tanger Factory Outlets (NYSE: SKT) at market.

Last but not least, I want to tell you about one more healthcare-related REIT…

5. The "MOB" Mailbox Money Machine

Here's what I'm calling my "MOB" mailbox money machine.

The "MOB" stands for Medical Office Building. You see, attached to every hospital there's almost always office buildings nearby that manage them.

This one MOB I've identified is the single best opportunity for REIT investors.

With 265 properties across the country, they're not that big right now.

But as they grow, so could your payments!

I'm recommending you buy shares of **Physicians Realty Trust (NYSE: DOC)**.

And, as I've already described, aging Boomers need more trips to the doctor and DOC is another REIT well positioned to capitalize on this trend.

And the good thing about being in the doctor's office business is that there's much less risk associated with Medicare or Medicaid than, say, with hospitals.

Physicians Realty Trust's properties can be found in 30 U.S. states. Texas is currently its most important state due to its large elderly population, and its occupancy rate is north of 96%.

When it comes to returns, DOC out-earned its dividend payout in ten out of the last twelve quarters. That gets my attention, along with its 5.7% current dividend yield.

What's more? The price is right. Shares have become more affordable lately as investors sold dividend-paying stocks in light of rising interest rates.

The drop is a good opportunity to gobble up shares in the healthcare REIT at a discount.

Action to Take: Buy shares of Physicians Realty Trust (NYSE: DOC).

So, there you have it: these five REITs are solid ways to add real estate assets to your portfolio without the normal hassle, or even the need to own a single square foot of property!

Why Now?

One last thing before I go: Why now? Why buy these REITs right now?

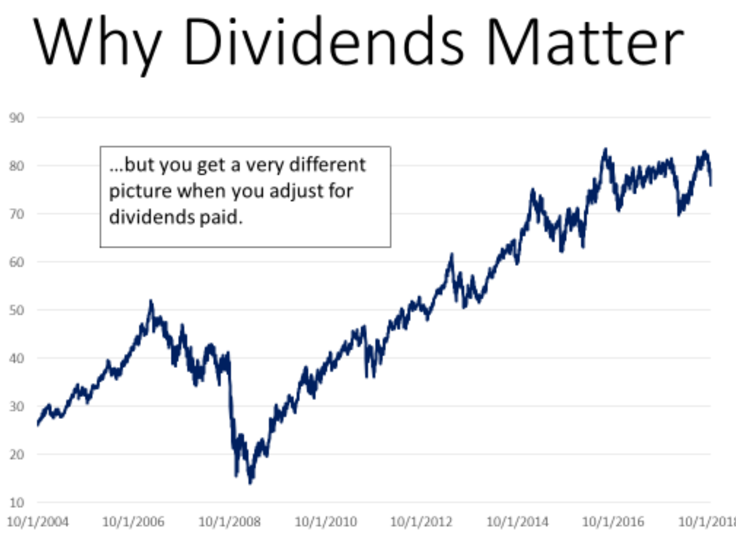
Well, this has been called the "bull market in *everything*." But the past decade has been anything but a bull market for REITs.

In fact, prices today are sitting at 2006 levels… and this despite the most accommodative Federal Reserve policies in history over most of this period.

Prices started to sag in early 2007 and then rolled over and died over the next two years. The sector had several strong years of recovery, but prices today are no higher than they were in 2013 and are still a decent bit below their old 2006 peak.

If you're a value investor like me, that's the sort of thing that ought to get you excited. At a time when the major indexes are coming off of their best run since the go-go years of the 1990s, this is a sector that has been mostly left for dead.

The story gets even more compelling when you consider the power of dividends.



When you include dividends paid, the returns look a lot better. REITs are up about 46% from its pre-crisis top and up 440% from its 2009 bottom.

So, lest there be any doubt, dividends matter. In this case, they make the difference between having *losses* over the past 12 years and having returns of nearly 50%.

Real estate stocks haven't exactly been popular of late. The sector got its butt kicked during the 2008 meltdown, and investors have been reluctant to touch that hot stove again. This is particularly true given that the sector was popular with retirees who liked the stocks for their income potential.

It's been a particularly rough ride since 2013. That year, Fed Chairman Ben Bernanke merely mentioned the possibility that he might scale back the Fed's quantitative easing program, and that was enough to rattle the bond market and send high-yielding real estate shares sharply lower.

Two years later, Bernanke's replacement, Janet Yellen, rattled the sector again when she hinted that rate hikes would be coming soon.

Real estate stocks had one last hurrah into mid-2016, but rising bond yield took the wind out of their sails. And the "volpocalypse" this past February slapped the sector around yet again.

Frankly, it's been a miserable five years to be invested in real estate. But I believe conditions are finally right to see this sector outperform.

To start, real estate stocks are worth more dead than alive at current prices. Recent estimates by real estate consultancy Green Street Advisors shows real estate stocks selling at a 5% discount to the value of the actual property they own.

That should never happen.

Barring a financial panic that sees prices temporarily dip below fair value, real estate stocks should literally *always* trade at significant premiums to the value of the real estate they own.

Investors pay a premium for professional management and for the ease of buying and selling with a mouse click rather than with a room full of lawyers with contracts.

Yet for most of the past five years, real estate stocks have traded at a discount. That kind of pricing won't last forever.

But the bigger short-term catalyst will be a moderation in the rise of bond yields we've seen recently.

Barring a major recession, I don't necessarily see bond yields dropping all the way to new lows. But at the very least, I see yields leveling off around today's levels and probably falling slightly.

Unlike bond coupon payments, which are fixed, rents from real estate tend to rise over time.

Rising rents translate into higher dividends for investors. So, even if we're stuck with 10-year Treasuries yielding over 3%, owning real estate with yields of 5% to 8% and rising payouts makes all the sense in the world if you want to boost your income.

How and Where to Invest

Buying REITs couldn't be easier. The funds trade like stocks, so you simply contact your brokerage firm and enter an order for the number of shares you want to own.

Of course, you need a brokerage account to get started. You probably already have one, but just in case here's a list of well-known brokers to help you get started:

- TD Ameritrade / www.tdameritrade.com
- Interactive Brokers / www.interactivebrokers.com
- Charles Schwab / www.schwab.com
- Fidelity / www.fidelity.com
- E*Trade / www.etrade.com
- Scottrade / www.scottrade.com
- Trade King / www.tradeking.com
- Robinhood / www.robinhood.com

And don't forget to check out your members-only *Peak Income* website. You have full access to my income service, my monthly and weekly archives and real-time trade alerts at www.dentresearch.com/peak-income.

If you have any trouble logging in or have any questions or comments, please contact me or your customer service line at peakincome@dentresearch.com.

Snap up these REITs now and start collecting your checks, without the landlord hassle, and welcome to *Peak Income*!

Charles

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