



How to Invest in Real Estate... Without Fixing Toilets

Description

Ten years ago, a neighbour taught me his simple method to generating wealth in real estate.

You wouldn't know he was affluent by the old pick-up truck he drove or his grizzled beard, but this man had built a small real estate empire in my hometown. His advice was simple, "Buy a few properties, love your tenants, and pay off the mortgages."

Owning real estate is a wonderful business. Your tenants pay you rent. Your tenants' children pay your children rent. Your tenants' grandchildren pay your grandchildren rent. By accumulating a few investment properties, you can create a dynasty of wealth that can last generations.

Unfortunately, real estate is a domain typically reserved for the wealthy. How many of us 'nine to fivers' have the time to manage tenants and fix broken toilets in the middle of the night? And without quite a few zeros in your bank balance, most of us will never be able to afford diversification across property types and regions.

How to invest in real estate while you watch TV, play golf, or travel the world

Enter real estate investment trusts, or REITs. REITs are the easiest and most effective way to collect thousands of dollars in rental income even if you don't have a fat bank account or great credit.

REITs hold and manage real estate properties. By law, these firms are required to distribute 90% of their profits to unitholders, providing a lucrative income stream for individual investors. And because these trusts are publicly traded, they can be bought and sold with a mouse click just like an ordinary stock.

Consider the **iShares REIT Index Fund** ([TSX: XRE](#)). This fund invests in a basket of the country's top REITs, which own and rent not only residential buildings, but also commercial and industrial properties. It pays a 5.0% distribution yield.

iShares REIT Index Fund Top Five Holdings

Company (Ticker)	% of Assets Yield	
Riocan REIT (TSX:REI.UN)	19.99%	5.18%
H&R REIT (TSX:HR.UN)	15.35%	5.77%
Canadian REIT (TSX:REF.UN)	7.50%	3.90%
Dundee REIT (TSX:D.UN)	7.34%	7.66%
Calloway REIT (TSX:CWT.UN)	6.42%	5.96%

Source: iShares and Google Finance

Let's say you were to invest \$300,000 in this fund rather than in a typical investment property. At current yields, you could earn \$1,250 per month in income without any of the hassles of being a landlord. And even if you don't have that kind of money you could still invest with a modest amount of capital, something that's difficult to do in a typical real estate deal.

However, investors willing to dig through individual trusts can generate yields as high as 7.5% or more.

Consider **Dundee** ([TSX: D.UN](#)), Canada's largest commercial landlord. This trust leases out office space and other commercial properties to high-quality tenants like **Bank of Nova Scotia, Telus**, and the government of Canada. These tenants are on much better financial footing than the typical person responding to the newspaper classifieds. This means unitholders can count on the firm's hearty 7.7% distribution yield.

This is nothing like being a landlord. Just to get started in the real estate business you need thousands of dollars for a down payment, a great credit rating, and be willing to borrow hundreds of thousands of dollars. Then you need to find responsible tenants who won't damage your property and be on standby to make surprise repairs.

Imagine if you were a landlord and you lost your only tenant. Suddenly you're missing out on 100% of your rental income. In contrast, a trust like **Canadians REIT** (TSX: REF.UN) is large and diversified. The company owns over 12 million square feet of residential real estate across Canada with thousands of tenants. There's no need to lie awake at night worrying if a single renter will skip town.

Foolish bottom line

No, as with any investment, no one can guarantee that any stock will maintain such generous dividends or see a gain every single year. But as my neighbour taught me, land and buildings can be the foundation of a dynasty of wealth that lasts generations. REITs are one of the fastest and easiest ways to break into real estate.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:D.UN (Dream Office Real Estate Investment Trust)
2. TSX:XRE (iShares S&P/TSX Capped REIT Index ETF)

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