



Forget About Rental Property. Buy These 3 REITs Instead

Description

One of the common success stories we hear about is regular people borrowing to invest in real estate, turning a modest loan from a friend or family member into an empire worth millions, all built on the foundation of owning rental property.

Those are great stories. But unfortunately, reality is a little different.

For every multi-millionaire real estate tycoon, there are dozens of regular Joes struggling with a property or two, hoping for appreciation, and praying their tenant pays the rent on time this month. Because these average Joes haven't yet built up a respectable sized portfolio, they're stuck with the dangers of not being diversified. If an investor owns a dozen properties, a new roof is a minor inconvenience. If an investor owns a single property, a new roof might represent the whole year's profit.

With low interest rates and increases in housing prices across Canada, cap rates are extremely low across the country. In many major cities, owners of rental property aren't even collecting enough in rent to cover the cost of the mortgage. They're forced to subsidize expenses like taxes and insurance, doing so because they're convinced the value of the property is about to head up.

Forget about that. Instead, take all of the headaches out of being a landlord and buy these three REITs instead.

Boardwalk REIT

Many real estate investors get started by buying apartment condos. There are many benefits, including being forced to put aside money for maintenance (through the condo fee), and having management onsite to keep an eye on the place. But an even bigger advantage is buying the entire building.

Enter **Boardwalk REIT** ([TSX: BEI.UN](#)), Canada's largest apartment REIT. The company owns 226 properties with more than 35,000 rentable units across Canada, but is focused in western Canada.

Funds from operations continued to improve for the company, increasing to \$3.21 in 2013. Boardwalk's dividend is just \$1.98 per year, giving it a 61% payout ratio, which is one of the lowest in the entire

sector. The company's dividend yield is just 3.3%, as investors are pricing in some significant distribution hikes in the near future.

In the meantime, Boardwalk continues to chug along. It spent 2013 refinancing more than \$300 million worth of mortgages, cutting its rate from 4.45% to 2.79%. It was also able to increase rents in many units across the country while keeping costs the same, leading to increased profits.

Canadian Apartment REIT

Investors disappointed with Boardwalk's 3.3% yield would be better off in one of its competitors, **Canadian Apartment Properties REIT** ([TSX: CAR.UN](#)) and its much more generous 5.5% dividend.

Canadian Apartment REIT is much more focused on eastern Canada, and has interests in more than 35,000 units across the country. Thanks to its acquisition of mobile home parks from **Killam Properties** (TSX: KMP), it also owns more than 6,000 land lease units in 29 mobile home parks.

Results continue to be impressive, as the company increased revenue 10% in 2013, while keeping expenses low. Units are also trading at a slight discount to net asset value.

Milestone Apartment REIT

It's very easy to make the argument that U.S. real estate is primed to outperform Canada in the near term. The U.S. market already had its crash and is priced at a significant discount to our market. With that in mind, investors should take a look at **Milestone Apartment REIT** (TSX: MST.UN), which owns almost 20,000 units in the southwestern part of the United States.

The company has an attractive 6.4% yield, boasts a recent payout ratio of just 75%, and is part of the much larger Milestone Group, which could give the company some acquisition targets in the future. In the meantime, investors get an attractive yield and access to the U.S. market.

Foolish bottom line

Buying a REIT has many advantages over buying physical property. Plus, these REITs are better positioned to weather a decline in Canadian housing prices. Let the employees of the REIT worry about stuff like 4 a.m. emergencies, evicting non-paying tenants, and cutting the grass. You can just sit back, relax, and collect your dividends.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BEI.UN (Boardwalk Real Estate Investment Trust)
2. TSX:CAR.UN (Canadian Apartment Properties Real Estate Investment Trust)
3. TSX:KMP.UN (Killam Apartment REIT)

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