



Forget Buying Rental Property; Buy These 3 REITs Instead

Description

In most parts of the country, buying a rental property is a terrible idea.

Real estate investors are counting on one thing to turn their investment into a profitable one, and that's price appreciation. By the time most investors factor in costs such as interest, condo fees, taxes, and basic maintenance, there isn't much profit left. I know investors who don't make enough on their rentals to even pay the mortgage and condo fees, never mind the other expenses. However, they've done well because prices across the country keep creeping up.

At some point, this all has to come to an end. Several factors could burst the bubble, including increased supply hitting the market. This is a real risk in Toronto, where the Canada Mortgage and Housing Corporation estimates there are currently 105,000 condos being developed. Perhaps it'll be a spike in interest rates, as is being discussed in both the United States and Great Britain. Or maybe it'll be a slowdown in foreign investment in the country, which could be accelerated by weakness in China.

Whatever the reason, I'd rather be the first one out than the last. Whether you already have an investment condo or are just looking to get one, here are three real estate investment trusts I think are a much better bet.

1. RioCan Real Estate Investment Trust

One of the biggest risks in buying one investment property is the lack of diversification. What happens if something goes wrong in that particular building? What happens if the neighborhood deteriorates?

Investors in **RioCan Real Estate Investment Trust** ([TSX: REI.UN](#)), Canada's largest retail REIT, don't have that worry. The company owns 293 properties in Canada along with 47 in the U.S., where cap rates are generally a little higher. Altogether, the company has 84 million square feet worth of space. Also, over more than 20 years, it's never missed a dividend.

RioCan has also identified an interesting growth strategy. It currently has two developments under construction that are building apartments on top of retail complexes. The biggest advantage to this is the cost — these apartments will cost just a fraction to build compared to similar properties, since the

majority of the cost is factored into the retail part of it. These can either be sold or retained — management isn't sure yet. Look for it to continue these in the future.

2. Dream Office REIT

One risk condo investors constantly worry about is the trust factor. Losing a month's rent or repairing damage is a big deal when you only have one unit. Investors in **Dream Office REIT** ([TSX: D.UN](#)) don't have such concerns.

The company is one of Canada's largest commercial landlords, with office space located across Canada. The list of its top tenants is filled with government agencies and some of Canada's largest and most respected companies. Investors don't have to worry about **The Bank of Nova Scotia** leaving town without paying the rent.

Its shares currently yield 7.7%, and its payout ratio is under 90%. That sure beats the cap rate of a Toronto or Vancouver condo.

3. Cominar Real Estate Investment Trust

One advantage real estate investors have over REIT investors is the ability to leverage. Price appreciation on 5% equity has a way of looking pretty impressive.

What if investors borrowed against their principal residence to buy **Cominar Real Estate Investment Trust** (TSX: CUF.UN) instead? The loan would likely carry an interest rate of 3%, but Cominar's shares yield 7.5%. Even if the stock price went nowhere, investors could just take the spread and do well.

I think Cominar's shares will do better than that. They've underperformed recently, but results have been solid. The company's payout ratio is comfortably under 90%, and it just raised its monthly payout by 2% to \$0.1225 cents per share. Even a 3% capital appreciation over time would bump the total return over 10%, and this could be made even higher by using leverage.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:D.UN (Dream Office Real Estate Investment Trust)
2. TSX:REI.UN (RioCan Real Estate Investment Trust)

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