# 5 Reasons to Never Buy Investment Real Estate

## Description



Owning rental properties is a wonderful business…

These nice companies called banks lend you all the money you need to invest. Then friendly people called tenants pay off your mortgage. In 20 years or less, you own the property free and clear, but you continue to receive the steady rental income.

No wonder thousands of Canadians want to try their hands in the real estate business every year. But while owning rental properties sounds good in theory, everyone has heard the landlord horror stories. However, there's a far easier (and more profitable) way to invest in rental properties: real estate investment trusts.

REITs are like real estate mutual funds, buying and selling investment properties on behalf of their unitholders. And for most investors, they are a far better alternative to buying real estate. Here are five reasons to skip rental properties altogether and buy REITs instead.

### 1. No diversification

Imagine, you're a residential landlord and you lose your only tenant. All of a sudden, you're missing out on 100% of your rental income. Now that's a problem!

Now consider a well-diversified firm like **H&R Real Estate Investment Trust** (TSX: HR.UN). The fund's business empire includes hundreds of residential, commercial, and industrial properties across the continent. There're no worries if one industry should fall on hard times or if a tenant decides to vacate. It only represents a small fraction of the total portfolio.

### 2. Too much hassle

Rental properties are a great source of income. That is, if you don't mind spending your retirement unclogging toilets, fixing leaky faucets, and chasing down rent cheques. How many of us dream of spending cold February mornings shovelling driveways?

Becoming a landlord isn't for everyone. However, when you own a REIT, a professional management team handles all of the day-to-day issues. You just have to sit back and cash the distribution cheques.

**3. No liquidity**

REITs can be bought and sold with the click of a mouse, just like common stocks. In every transaction, you pay a small brokerage commission plus an exchange fee. This will cost between $5 and $30 at most discount brokers.

Rental properties can take months to sell. That's a problem if you need to raise cash quickly. Other expenses — including realtor commissions, title insurance, legal fees, and transfer taxes — can cost you tens of thousands of dollars.

**4. Leverage**

It's a common misconception, but rental properties aren't the only place where you can exploit leverage. For example, **RioCan Real Estate Investment Trust** (TSX: REI.UN) borrows 44¢ in debt for every $1 it buys in assets. RioCan investors are using debt to juice returns just like traditional landlords.

That said, leverage is a two-way street. While debt enhances returns, it also increases risk. Leverage is no magic bullet in building wealth.



**5. Time consuming**

It can take months to find a rental property, close the deal, and find a tenant. You will need at least a $25,000 down payment just to get into the business. Even in the best-case scenario, it can take months to start generating income.

However, consider **Dream Office REIT** (TSX: D.UN). You can get started today by buying a single unit for under $30. Right now, the trust pays out a monthly distribution of 18.66¢ per unit, which comes out to an annualized yield of 7.8%. And if you become a partner by September 26, you'll be eligible to collect your first distribution cheque on October 18.

**CATEGORY**

1. Investing

**TICKERS GLOBAL**

1. TSX:D.UN (Dream Office Real Estate Investment Trust)
2. TSX:HR.UN (H&R Real Estate Investment Trust)
3. TSX:REI.UN (RioCan Real Estate Investment Trust)

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