Buy These 2 REITs Instead of Rental Property

Description

If you're thinking of buying rental property, slow down. There are some serious drawbacks.

For one, it can be very costly to find and buy the right place — agent commission alone can take a big bite out of your investment right away. Then there's the pain of finding tenants. And if you're unlucky, the tenants will struggle to pay or cause damage to the property. Making matters even worse, you get no diversification. So what happens if the market value of that property declines?

Instead, you should take a look at a real estate investment trust, which allows you to indirectly invest in a pool of properties. Below are two worth considering:

1. Dream Office REIT (TSX: D.UN)

As the name suggests, Dream Office REIT owns commercial property across the country, renting out space to some of Canada's largest institutions (including governments). All in all, the company owns 24.5 million square feet.

So, right away you get two advantages relative to rental property. First of all, these tenants are not going to default anytime soon. For example, the government of Canada is Dream's second-largest tenant. Secondly, you get instant diversification. The properties are very spread out by geography, the tenants are often in different industries, and the lease terms are staggered, too. So there's little risk of one big lease hurting the company.

Better yet, Dream has a great track record, having grown from a $260 million company in 2008 to a $3 billion company today. And with $740 million more in borrowing capacity, there's more room for growth.

And perhaps best of all, the units come with a generous 8% yield.

2. RioCan Real Estate Investment Trust (TSX: REI.UN)

Like Dream, RioCanleases out property to commercial clients. But unlike Dream, RioCan owns retail space, with only 5% of square footage being office space. And it offers even more diversification, with properties in the northeastern United States as well as Canada. RioCan is also much bigger, with a market capitalization of over $8 billion.

Once again, RioCan has a diversified mix of rock-solid clients. In fact, the top 10 clients account for only 27% of annualized rent revenue. And the leases are once again staggered by year, so there is no risk of one tenant relationship sinking the company.

Also like Dream, RioCan has a solid track record, with an annual return to shareholders of 11% over the past 15 years. And with an annual dividend yield of 5.5%, the units give you some nice income, especially given the moderate risk involved.

Other options

One alternative is to pursue dividend-paying stocks. But you must be careful in this regard — many dividend-paying companies are much riskier than these REITs. The free report below profiles some you definitely want to consider.

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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Date
2025/07/23
Date Created
2014/09/24
Author
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