Why BCE Inc's Dividend Is a Better Option Than Rental Income

Description

As so many Canadians near retirement, buying rental property has become a popular way to generate some income from hard-earned savings. But this is not a smart investment at all.

To make this point, below we compare rental property with buying shares of **BCE Inc.** (TSX: BCE)(NYSE: BCE), one of Canada's most attractive dividend stocks.

Why you shouldn't buy rental property

Let's start with the simplest reason not to buy rental property: the yields aren't high enough.

According to the latest CBRE survey, yields on Canadian apartments (known as cap rates) are at roughly 5%. But this number doesn't include property tax, maintenance, insurance, and other fees (such as condo or property management fees). Altogether, this can take a big bite out of your returns.

There are other costs to consider. For example, finding good tenants can be a lot of work. And if these tenants run into financial difficulties, that creates a whole other headache.

Secondly, there are concerns about Canadian real estate values. Just last week, Bank of Canada governor Stephen Poloz argued that Canadian real estate prices are 10-30% too high. If he's right, and the market does go through a correction, then returns from rental property could take a big hit. This is a significant risk for investors, especially since rental property is financed mainly through debt.

The case for BCE instead

BCE is likely your best option if you want big regular payments from a **S&P/TSX 60** company. At 4.8%, it's the eleventh highest-yielding stock on the index, but the top 10 companies are all struggling mightily (eight of them are energy producers).

So BCE has a yield fairly similar to the cap rates from rental property. But BCE doesn't come with any of the other associated costs like maintenance and insurance. You don't need to find a tenant or worry about credit risks. You also don't need to worry about Canadian real estate values.

Besides having fewer risks, there is arguably more upside in BCE's shares too. To illustrate, the company's dividend has roughly doubled over the past 10 years. Meanwhile, there's a limit on how much rent prices can increase in a given year. In 2015, that limit is a measly 1.6%.

Better yet, buying BCE stock is cheap and easy. Odds are you'll pay $10 for the trade, far less than you'd pay a real estate agent, and you'll own the stock with just a few mouse clicks.

There are other options

BCE is just one example of a safe dividend stock you should own instead of rental property. There are others too. For example, if you're willing to take a slightly lower yield, you can expect greater dividend growth. See below for more examples.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)
2. TSX:BCE (BCE Inc.)

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bensinclair