



## Forget Buying a Rental Property. Invest in These 3 Great REITs Instead

### Description

The old saying goes that 90% of all millionaires got rich because of real estate.

I'm not sure how true that expression is, but real estate is definitely a great way to build wealth. Investors can buy it using leverage, and it spins off cash flow every month. Plus, the value of it tends to go up at around the pace of inflation. Add those two things together, and it's easy to get a pretty consistent return around 10% annually.

The traditional way of investing in real estate was to buy a property or two and rent it out. While there are many Canadians who have had success with that model—especially at this point of the real estate cycle—I'm not sure it's the ideal way to do it.

Think about all the work involved. You have to find tenants, hassle them for rent, fix broken toilets, clean the place once they leave, and a million other little jobs. And then, when you go to sell it, a real estate agent takes 6% off the top for commission.

That's hardly the best way to get involved in real estate.

Instead, I encourage investors to get their real estate exposure via real estate investment trusts. REITs typically own hundreds of properties stretched across the country, and will pay out most of their profits to investors. That leads to some outsized dividends.

Take **Dream Office REIT** ([TSX:D.UN](#)), one of Canada's largest owners of office towers with more than 24 million square feet of space spread over 177 properties. Its largest tenants consist of some of Canada's most well-respected companies and various levels of governments. Needless to say, these tenants come with a better credit rating than someone randomly answering a Kijiji ad.

Dream currently pays investors \$2.22 per share, a dividend yield of 8.6%. Good luck finding that kind of yield in a GIC. The company also trades at just 10.8 times its adjusted funds from operations, making it one of the cheapest REITs in Canada on that metric. And investors don't have to worry about the dividend either, since its payout ratio is around 90%, with room to grow occupancy.

Another great REIT is **Calloway Real Estate Investment Trust** (TSX:CWT.UN), one of Canada's largest owners of retail space.

What I like about Calloway the exposure to its largest tenant, **Wal-Mart**. The world's largest retailer is the anchor tenant for many of Calloway's shopping centres, accounting for approximately 25% of company's total square footage.

Wal-Mart still has plenty of room to grow in Canada, with only 396 current stores. By committing to long-term leases with Calloway, Wal-Mart can open more stores than if were paying for the real estate itself. It's a plus for Calloway as well, since Wal-Mart's foot traffic attracts other businesses. Calloway's most recent occupancy rate was 99%, a testament to Wal-Mart's great drawing power and management's skill at identifying opportunities. Calloway currently pays investors a pretty generous 5.5% yield.

Investors looking for exposure to many different forms of real estate should check out **Cominar Real Estate Investment Trust** (TSX:CUF.UN), which is Quebec's largest commercial landlord. The company owns retail, commercial, and industrial property across la belle province, as well as in Atlantic Canada and the Toronto area.

Cominar offers investors a great dividend yield of 7.7%, and has a management team that owns more than \$400 million worth of shares. Its portfolio consists of 563 different properties, with more than 45 million square feet worth of space. Its occupancy rate is 94%, and its payout ratio is under 90%. It also trades at approximately 15% less than its book value, making it a good value play as well.

For investors looking for real estate exposure without all the hassles, REITs are an excellent choice. Buying a basket of these three companies would give an investor an average yield of more than 7%, as well as potential capital gains. Looking at it from that perspective, it's easy to see why so many investors would rather own REITs than rental property.

## CATEGORY

1. Dividend Stocks
2. Investing

## POST TAG

1. Editor's Choice

## TICKERS GLOBAL

1. TSX:D.UN (Dream Office Real Estate Investment Trust)
2. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)

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nelsonpsmith

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