Attention Retirees: 9 Reasons to Never Become a Landlord

Description

Everyone knows that owning rental properties can be a reliable source of income in your golden years. That is, if you don't mind spending your retirement unclogging toilets, fixing leaky faucets, and chasing down rent cheques! Becoming a landlord is a tough gig. While we could all use the extra cash, not everyone is cut out to own rental properties.

However, there's another way to invest in real estate *without* becoming a landlord. Even better, thousands of ordinary Canadians are already using this method to collect reliable monthly income.

I'm talking about partnering with already established, highly successful property owners through real estate investment trusts, or REITs. You could think of a REIT like a real estate holding company. They buy properties, collect rent from tenants, and pass on the income to investors.

For most folks, blue-chip trusts—such as **H&R REIT** (TSX:HR.UN), **Canadian REIT** (TSX:REF.UN), and **RioCan REIT** (TSX:REI.UN)—are a compelling alternative to owning real estate directly. But if you're still unconvinced, here are nine reasons to skip rental properties altogether and buy REITs instead.

1. Big start-up costs: Want to become a real estate mogul? You'll need at least a $25,000 down payment. You'll also want thousands of dollars in reserve to cover vacancies, unexpected repairs, and other expenses. REITs, in contrast, trade in individual units. You can get started with as little as $10.

2. Lots of repairs: Renters can have a broken water pipe at any hour of the day. A REIT, on the other hand, won't call you in the middle of the night. A professional management team handles all of the daily hassles.

3. Problem tenants: Most tenants are good people, but you'll inevitably have a problem renter at some point. We've all heard those landlord horror stories of tenants vandalizing properties and refusing to pay rent for years on end. And when the nightmare tenants move in, don't expect any help from the government. The courts will usually side with the renter in the eviction process.

4. Becoming a bill collector: What happens if your tenants can't make the rent? You have what we call in the finance industry as a “non-performing asset.” Even worse, you’re still on the hook for the taxes, repairs, mortgage, and other costs associated with your property.

5. Huge transaction costs: When you buy or sell a REIT, you pay a small brokerage commission. Buying and selling an investment property, in contrast, is expensive. Realtors will charge 5% of the property’s value to arrange a sale. Then there’s the cost of lawyers, title insurance, and transfer taxes. Immediately after you purchase a property, you’re already 7-10% underwater.

6. No liquidity: REITs can be bought and sold just like a common stock. Rental properties, once again, are time-consuming to sell. There’s the hassle of finding a realtor and negotiating deals. The transaction can take months to complete, even in a good market.

7. No diversification: Most landlords only have the resources to buy a few properties, let alone come up with the funds needed for a mall or an office building. However, with REITs, you can diversify your portfolio across thousands of units, in dozens of geographies, and several property types. That makes it easier to sleep at night.

8. Less leverage: Rental properties aren’t the only place where you can exploit other people’s money. Like landlords, REITs often borrow funds to purchase assets. You can dial up the risk even more by investing on margin or with call options. Of course, as the old cliché goes, leverage is a double-edged sword. It magnifies your gains and your losses.

9. No cash flow: Few rentals are cash flow positive right from the beginning. Unless you pay for your property without a mortgage, your investment will be a money pit. REITs, however, are cash flow machines with yields as high as 5%, 7%, and even 10%. And because most of these trusts pay their investors monthly, you can start cashing in almost immediately.

CATEGORY

1. Investing

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

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