6 Reasons Why Owning REITs Are Better Than Rental Property

Description

Over the years, buying real estate has been a popular investment for Canadians. It's worked out pretty well, especially over the last decade. House values have shot to the moon, leading many pundits to call Canada's market overvalued.

Even though it's been a successful strategy, I'm skeptical that it'll work in the future. Here are six reasons why I'd rather buy REITs over rental properties.

1. Diversification

As the old expression goes, real estate is local, which means each market is unique. It's one of the biggest arguments against folks who are calling Canada's real estate a bubble. Sure, some local markets might be overvalued, but there's always a real estate deal somewhere.

Perhaps that's true, but it also helps illustrate one of the huge risks of buying one property. You're exposed to that local market, which might be worse than other markets nearby. Frankly, I'm skeptical that most people have the ability to predict which area will be the best spot for their dollars.

Buying a REIT eliminates that problem. Take **RioCan Real Estate Investment Trust** (TSX:REI.UN), which owns nearly 80 million leasable square feet across 340 different properties across North America. It has exposure to some of the finest shopping malls in dozens of markets. These are locations with public transit access, ample parking, and enough tenant variety to keep people coming back over and over again.

That sure beats a condo in some unknown suburb, at least in my books.

2. Professional management

Unless you have many different rental properties, hiring professional management just isn't worth it. The manager takes too much of your profit.

Because REITs own hundreds of different properties, they can easily afford to hire a professional, since it’s just a fraction of the rent. That’s the kind of efficiency I can get behind.

3. No headaches

Because professional management costs so much, many landlords decide to go at it alone. That’s a bad idea if you don’t know what you’re doing.

Professional tenants prey on rookie landlords, getting them to spend thousands of dollars to ultimately eject them from the property. Even if you get a good tenant, there’s still the maintenance issue. Unless you want to spend your weekends sprucing up a place a tenant slowly wears out, I’d suggest taking your money and buying a REIT instead.

4. No leverage

Small landlords aren’t just taking on location risk when they first start out. Chances are they’re using a ton of debt to acquire that first place, which automatically makes it more risky.

Think of it this way. If you put down 10% on a property, you’ve just leveraged your money by a factor of 10. You’ve borrowed $10 for every $1 you actually own. If the value of that property falls by just 10%, your original investment is wiped out.

5. Better cash flow

In certain neighborhoods in Toronto, Vancouver, and other major cities, investors own many of the properties. This has depressed rents to the point where some investors are barely making enough to pay the interest on their mortgage.

Meanwhile, **Cominar Real Estate Investment Trust** (TSX:CUF.UN) pays out a dividend of 8.6%. Cominar is Quebec’s largest landowner, with diverse holdings that include malls, office towers, and industrial buildings. It also owns property in Toronto, Atlantic Canada, and even Calgary. Investors can count on Cominar’s dividend too, since it hasn’t missed a payment since 1998.

I’m much more confident about Cominar’s ability to continue delivering steady returns than I am with a smaller landlord

6. Smarter buyers

While there are tons of smart real estate investors out there, we all know people who just aren’t very good at it. They overpay, overlook huge potential issues, or overestimate the amount of rent they can charge.

Management of Canada’s largest REITs are smart buyers. Since they’re buying huge assets that don’t attract any retail investors, cap rates between 6-8% are common. REITs can then borrow at rates between 3-4%, and investors pocket the difference in dividends. If the numbers don’t make sense, these professionals just don’t buy.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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

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Author
nelsonpsmith