5 Benefits of Investing in REITs Over Real Estate

Description

If you have rental properties, you need to collect rent from your tenants and maintain the properties. That's work if you don't enjoy doing it.

Instead, you might hire a property manager to collect the rent and deal with any maintenance. Both the management and maintenance are extra costs on your investment. Further, you'll probably have to pay off the mortgage on top of the interest.

There's a better way to invest in real estate: buy real estate investment trusts (REITs). Here are the benefits:

1. Sit back and collect rent

Buying REIT units is similar to buying company shares in your brokerage accounts. Once you buy REIT units, you will start collecting monthly payments, just like collecting dividend paycheques from dividend stocks. Essentially, after you purchase REIT units in your account, you can sit back and collect "rent," which goes straight to your account every month with no hassle.

2. Invest in real estate, debt free

If you're buying a rental property, it's a huge investment. A condo costs around $300,000. The average investor will need a mortgage and will have to pay interest on it. If you don't sleep well with too much debt, you'll be happy to know that by investing in REITs, you can invest in real estate without adding to your debt load because you can invest as much or as little as you like.

3. Own high-quality real estate

You can handpick the highest-quality REITs based on their historical business performances. You can choose to invest in REITs with conservative business models, which acquire portfolios of high-quality real estate assets, target low payout ratios, and maintain high occupancies.

A top-notch REIT is **Canadian REIT** (TSX:REF.UN). It has been growing its high-quality portfolio of diversified real estate assets. Based on net income, Canadian REIT's asset type allocation is about 50% in retail assets, 25% in industrial assets, and 25% in office assets. Additionally, the REIT has a track record of maintaining high occupancy levels of over 95% from 1994 to 2014.

As Canadian REIT has reduced its payout ratio over time, it has continued to increase its payout. In fact, it has increased its distribution for 14 consecutive years, and its payout ratio (based on funds from operations) is still under 60%. From 2010 to 2015, Canadian REIT has increased its distribution by 6.2% per year on average.

4. Income tax advantage

REITs pay out distributions that are like dividends but are taxed differently than dividends. In non-registered accounts the return of capital portion of REIT distributions is tax deferred until unitholders sell or adjusted cost basis turns negative. If you don't want to track the adjusted cost basis, then you can buy REITs in TFSAs to collect tax-free monthly income. Or you can invest in RRSPs.

5. Professional management teams

Each REIT has a professional management team and a board of trustees with specific industry experiences and the knowledge to manage the business and the properties well.

These professionals are the best at doing what they do. Why not leave it to them to handle the everyday operations of the REITs?

Conclusion

By investing in high-quality REITs, such as Canadian REIT, investors can invest in the real estate market passively. Investors can essentially choose the REITs they want to hold, buy their units, and sit back and collect monthly paycheques.

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1. Dividend Stocks
2. Investing

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kayng