



How Anyone Can Easily Create Their Own Real Estate Empire

Description

Canadian investors love real estate.

There are plenty of legitimate reasons why. The asset class has performed remarkably well over the last decade, delivering annual price appreciation as high as 10% in some markets. Cash flows from rentals tend to be fairly predictable as well. And it's easy for regular Joe investors to acquire a property using a down payment of 10% or 20% of the total value. That leverage creates a powerful compounding effect when values go up.

But owning a property isn't all sunshine and lollipops. Most renters are good people, but the odd one doesn't pay and then damages the place in the process. Toilets get clogged and appliances randomly stop working. Cap rates in many of Canada's largest markets are pretty anemic, too. Additionally, buying only one or two condos in a specific neighborhood exposes an investor to concentration risks.

There's a better way. Investors that buy a portfolio of REITs can get great yields, fantastic diversification, professional management, and have a true passive investment. Plus, it's not terribly hard to replicate the same leverage advantage that physical real estate investors have.

Which REITs?

The first step is choosing which REITs are good additions to your portfolio.

One I personally own is **Dream Office Real Estate Investment Trst** ([TSX:D.UN](#)), Canada's largest pure-play owner of office towers. The company owns some 23 million square feet of gross leasable area over 166 different properties across Canada. Most of the portfolio is clustered in major western Canadian markets and the Greater Toronto Area.

Dream is an interesting company for one main reason. Investors are worried that the 4.3 million square feet of space in Calgary is in real danger as oil companies slash all non-essential expenses. But occupancy in the city is only a little under 90%, and oil's recent recovery to \$45 per barrel could mean the worst is behind Calgary.

Shares trade as though the Calgary properties are worth zero. The net asset value is approximately \$32 per share, while the price languishes under \$20. Even if Calgary and the 20% of the portfolio it represents is worth nothing—which isn't even remotely true—the value of the company would still be closer to \$26 per share.

Yes, Dream did cut its dividend a few months ago. But the new 7.6% payout is quite sustainable and should continue to be even if key markets continue to be weak.

Another interesting REIT is **Artis Real Estate Investment Trust** ([TSX:AX.UN](#)). Like Dream, it trades at a substantial discount to the underlying value of its portfolio. It's far more diverse though, with only 50% of its assets in office buildings. It also has exposure to the U.S. market, and occupancy is approximately 95%.

In 2015, Artis generated \$1.49 in funds from operations per share, which puts the company at a value-priced valuation of just 8.7 times earnings. It also ensures the company's 8.3% dividend is safe.

The power of leverage

It isn't just physical real estate investors who can use leverage to enhance their total returns.

Say you had \$50,000 in original capital with the ability to borrow \$25,000 on a line of credit at an interest rate of 3%. You'd then take that \$75,000 and leverage it again using an online broker's margin account. The interest rate paid on that loan can be as low as prime, which is 2.7%. In this situation, an investor could easily add another 50% to the value of the investment and not have to worry about margin calls.

An investment of \$112,500 split equally between Dream Office and Artis would generate cash flow of \$742.86 per month, while interest costs would be \$175 per month. That represents a total profit of \$567.86 per month. That's a 13.6% return on the original \$50,000 investment, which doesn't even include potential capital gains.

By using less traditional forms of leverage, investors can create a passive real estate empire that throws off plenty of cash each month, all without having to worry about fixing another toilet again. Talk about a win-win situation.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:AX.UN (Artis Real Estate Investment Trust)
2. TSX:D.UN (Dream Office Real Estate Investment Trust)

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