Begin Building Your Own Real Estate Empire With as Little as $1,000

Description

Real estate has long been a powerful way to build wealth. As the old saying goes, 90% of millionaires come from real estate.

Perhaps the best part of buying real estate has always been the ability to leverage the investment. It's easy to control a property worth $500,000 with just $100,000 of your own capital. The rest can be borrowed at a bank for rates unheard of just a few years ago.

Unfortunately, this has helped drive up prices across the country, especially in Toronto and Vancouver. It seems like there's a story every week in the financial media of someone warning prices in both those metros are crazy.

Real estate in those two markets has become more about capital appreciation than cash flow. This has sent cap rates cratering down to nearly zero. By the time the owner pays the mortgage, maintenance, and other expenses, there's very little left over. Many landlords actually shell out a little money each month because rent doesn't quite cover all their expenses.

This leaves investors in those two cities with a conundrum. They want to get in on real estate without paying the inflated prices.

Fortunately, there's a better way. Investors can use the leverage offered by their brokers to buy real estate investment trusts, which are trading at much cheaper valuations than the average downtown condo.

How it works

Say you had $10,000 of your own money and wanted to use it to buy REITs. Here's what you'd do.

Firstly, you have to make sure to sign up for a margin account instead of just a cash account with your broker. Don't sweat it; this is easy to do. In fact, most people reading this will already have a margin account.

The next step is to see what the broker charges for interest. Most companies will be at prime +1% (which works out to 3.7% annually), but if you look around, you can find a company or two that offers it at less than prime. If you're investing $10,000, the cost of settling for prime +1% is far less onerous than if you're investing $100,000.

Most Canadian REITs are eligible for reduced margin. This means all you have to do is maintain 30% equity in your account and you'll be fine. This means for every $10,000 you put down, you can control up to $33,333 in REITs.

That's the maximum you can borrow. I'd recommend being much more conservative. The most I'd be comfortable borrowing is $10,000, boosting my total investment to $20,000.

You don't even need $10,000 to get started doing this strategy. Some brokerages will allow someone to get started using just $1,000.

Which REITs?

Now that we know how to implement the strategy, we need to pick a couple of good REITs to own over the long haul.

One of my favourites is **Dream Office Real Estate Investment Trst** (TSX:D.UN). The company is one of Canada's leading owners of office space with more than 22 million square feet in its portfolio.

The big issue has been its exposure to the Calgary market, which has been in the dumps. This weakness has pushed occupancy below 90% and forced the company to cut its dividend from $0.186 per month to $0.125.

But the new yield is still a distribution of close to 8% with a very sustainable payout ratio. Shares are also extremely undervalued from an assets perspective with a net asset value of close to $30 per share–a huge premium compared to the $19 share price.

Another interesting company is **Northview Apartment REIT** (TSX:NVU.UN), which owns more than 24,000 apartment suites in +60 markets across Canada. It is also expanding into managing hotels and commercial properties.

Northview is cheaper than its peers on almost every metric, including price-to-funds from operations and price-to-book value. It also pays a succulent 7.3% dividend that's easily covered by cash flow.

CATEGORY

1. Dividend Stocks
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3. Stocks for Beginners

POST TAG

1. Editor's Choice

TICKERS GLOBAL

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

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