



Why I'd Much Rather Own These 3 REITs Than Any Rental Property

Description

The world is filled with what I like to call middle-class millionaires. These are folks who live a relatively normal life despite sitting on \$1 million, \$5 million, or even \$20 million of assets.

Their wealth usually comes from one of three different sources. They either own their own business, successfully invest in the stock market, or have a real estate empire. After one of the best extended bull markets in Canadian real estate history, more and more real estate tycoons are popping up, hoping to get their share of a booming market.

There's just one problem. All signs point to the next 20 years being a poor time to buy and hold real estate.

Values have been pushed up, which has depressed cash flows. In certain cities, landlords are forced to accept rents so low, they don't even cover the interest on the mortgage. Rates are low today, but they won't be this low forever. And the average real estate investor is over leveraged to one place. If economic conditions deteriorate, they get hit hard.

Instead, I advocate a simple solution. If investors put their money to work inside some of Canada's largest REITs, they'll get nice yields, instant diversification, and a true hands-off investment while still retaining exposure to Canada's real estate market.

In other words, it's the best of all worlds. It's the ideal way to build up a real estate portfolio in 2017.

The only thing investors have to decide is what REITs to own. We can help with that part. Here are three of Canada's finest.

H&R

H&R Real Estate Investment Trust ([TSX:HR.UN](#)) is the perfect combination of security and an attractive payout.

The company is Canada's second-largest REIT with more than \$14 billion in total assets. It owns

everything from office towers to retail malls to industrial space. It has even been expanding into residential, acquiring more than 3,200 apartments in the United States.

Some investors are worried about the trust's Albertan exposure, but those fears appear to be overblown. Main tenants with energy exposure (like **Encana**) have stabilized. Management further showed their confidence in the overall portfolio by hiking the annual dividend from \$1.35 per share to \$1.38.

Shares currently yield 6.2% — a nice payout in today's world.

Northview Apartment

I've liked **Northview Apartment REIT** (TSX:NVU.UN) for a while now for one simple reason: it trades at an extremely low valuation versus its peers.

While Northview does have assets across Canada, the majority of its earnings come from northern and Atlantic Canada, two areas investors don't really like right now.

Northview should earn approximately \$2.10 per share in funds from operations for 2016, which has been a down year because of the weak energy market hitting many of its holdings as well as the Fort McMurray wildfires. Still, that puts shares at less than 10 times the REIT's equivalent of earnings.

It also pays an 8.1% dividend — a payout that is covered easily by cash flow. Investors don't have to worry about it.

Crombie

Crombie Real Estate Investment Trust ([TSX:CRR.UN](#)) has struggled for the last six months, falling more than 10%.

Much of this weakness can be attributed to Crombie's parent company, **Empire Company Limited**. Empire, which is Crombie's largest tenant by far, has been plagued by weak sales and other operational difficulties. Many investors think the company will close certain locations if the struggles continue.

But grocery stores are still good tenants, and Empire is Canada's second-largest grocer. I doubt the company is going anywhere. Both Sobeys and Safeway are doing well enough to continue keeping the lights on. And Crombie shareholders are getting a generous 6.5% yield to wait.

The bottom line

A portfolio consisting of equal parts H&R, Northview, and Crombie would give an investor great diversification, a yield of 6.9%, and the kind of true passive income most real estate moguls can only dream of. That's the kind of real estate investing I can really get behind.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CRR.UN (Crombie Real Estate Investment Trust)
2. TSX:HR.UN (H&R Real Estate Investment Trust)

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