



Build Your Own Real Estate Empire Starting With Just \$1,000

Description

I personally know at least a half dozen people who have become millionaires by building their own real estate empire.

Each of these folks has followed a predictable path. They started out with just a small house or apartment. Once the first investment was paid off, they did it again, and then again. After a decade or two, they're suddenly sitting with an impressive portfolio.

Unfortunately, I'm not sure starting such a strategy would work today. Real estate values across Canada have shot through the roof, especially in Toronto and Vancouver. Cash flow from properties in these cities are so anemic it often barely covers mortgage interest. Buyers are looking for capital appreciation these days, not cash flow.

There's a better way. Investors can build their own real estate empire using real estate investment trusts (REITs). Oh, and they can get started with as little as \$1,000. Here's how.

REITs: the perfect vehicle

There are really only two disadvantages of buying REITs versus traditional rental properties. The first is you're forced to let someone else manage your portfolio, which is pure torture for some of us. And the second is a property snapped up at a bargain price won't make much difference for a REIT. It could be a very big deal for an individual's portfolio.

But those disadvantages are easily outweighed by the plethora of advantages. REITs come with efficient management, making them a truly passive investment. They offer terrific yields along with capital appreciation potential. And perhaps most importantly, regular investors can also use leverage to supercharge their exposure to the sector.

Here's how it works. Say you're a fan of **Artis Real Estate Investment Trust** ([TSX:AX.UN](#)), like I am. The stock trades well under its net asset value, the company's expansion into the United States is going well, and it's hard to beat that 7.9% yield.

500 shares of Artis would set you back \$6,825 as I write this, plus any commission. By using your broker's margin, it's easy to double your investment.

Canadian online brokers charge anywhere from 2% to 7% annually to borrow money. As long as your broker is closer to the bottom of that range, you'll do fine. Most of Canada's REITs—including Artis—qualify for reduced margin, which means you'll only need to have 30% equity in the position to avoid the dreaded margin call.

A 1,000 share investment in Artis would work like this. You'd take \$6,825 of your own money and \$6,825 of borrowed money. You'd collect \$1,080 in total annual income while only spending \$204.75 in interest, assuming a constant 3% interest rate on the loan. The investment would net \$875.25 (before taxes), which is a yield of 12.8% on your own capital. Not bad!

Oh, and the \$204.75 in interest costs would be tax deductible, which further increases the yield.

The adjusted yield becomes even better if you pick a REIT with a better payout. Take **True North Commercial REIT** ([TSX:TNT.UN](https://www.tsx.com/quote/TNT.UN)), which pays a \$0.05 per share monthly dividend. The company has a portfolio of 30 different commercial buildings spanning three provinces. Occupancy is 97.5% despite more than 10% of the portfolio invested in Alberta-based property.

True North shares currently yield 9.5%. If you bought 1,000 shares and borrowed to buy another 1,000, you'd be looking at an investment that costs \$12,540 day one, generating \$1,200 in yearly income. It works out to a yield of 16.1% on the original investment while only costing \$188.10 in annual interest.

Remember, there's no reason why you'd have to start with that much capital. You could begin doing this with as little as \$1,000.

The bottom line

I'm a former real estate investor who has embraced REITs. I love the how the average REIT gives me a diversified portfolio, an attractive payout, and truly passive management. I don't use leverage to enhance my returns, but I have thought about it.

Perhaps you should join me. Of course, you don't have to limit your thinking to just real estate. Any high-yield stock is fine. Like this one!

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1. TSX:AX.UN (Artis Real Estate Investment Trust)

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Date

2025/07/17

Date Created

2017/04/26

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