



How to Become a Landlord Without Owning Property

Description

As investors are aware, real estate has been one of the best investments over the past decade. In addition to an increase in demand, the asset class has become more mainstream as interest rates have declined, making real estate more affordable.

To put things in perspective, it is important to calculate the purchase price of a home assuming a \$2,000 mortgage payment at various rates of interest. At a going interest rate of 5%, buyers wanting to pay off a mortgage in 25 years by making monthly payments of \$2,000 can borrow a total of approximately \$342,000.

With interest rates steadily declining, the total purchase price has gradually increased over time. Assuming a 4% rate of interest, the \$342,000 becomes almost \$379,000. As less of the monthly payment goes towards interest payments, the amount that can be borrowed increases. If the interest rate drops to 3%, then the amount that can be borrowed jumps to approximately \$421,000. At a rate of 2%, the amount becomes an astonishing \$472,000.

Clearly, investors holding real estate have done very well as the cost to service the borrowing has steadily declined over the past 10 years. The result to most buyers has been a higher purchase price and consistent monthly payments.

The conundrum faced by many investors wanting to make a real estate investment without actually becoming a landlord is how to do it. Most who purchase individual securities don't want to be called in the middle of the night because a pipe burst. Shareholders need a good night's sleep.

Enter the real estate investment trust (REIT) sector.

Currently, a number of REITs offer investors the potential to receive dividend yields in excess of 5%, and the share prices could increase. Well known by investors is **Dream Office Real Estate Investment Trst** ([TSX:D.UN](#)), which trades at a discount to tangible book value and currently offers a dividend yield of approximately 7.5%. Over the past year, investors have seen a share price as low as \$16! Shares trade in the range of \$20-20.50.

Investors looking for a smaller or less-covered company can consider **Slate Office REIT** (TSX:SOT.UN). The company, which operates in the office rental market, currently trades at close to tangible book value and offers a yield of over 9%.

As investors in securities, there is the potential to easily move into one security or swap it for another. Investors in real estate, however, must go through a much more labourious process to alter their holdings. With the benefits of a built-in property manager, owners of REITs have a number of experts working in their favour and are guaranteed not to be woken up in the middle of the night.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:D.UN (Dream Office Real Estate Investment Trust)
2. TSX:RPR.UN (Ravelin Properties REIT)

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