Should Real Estate Be Part of Your Retirement Income?

Description

Investing in real estate has been one of the most popular ways of generating passive income. In Canada, that strategy worked for many investors who bought their income-producing properties a decade ago and fully participated in the bull run that's showing a sign of aging now.

Is it still a good time to invest in real estate and make it a part of your retirement strategy? The answer to this question isn't simple. There are both bad and good sides to owning a real asset to generate passive income.

Many financial planners don't like real-estate. They believe carrying costs of a real estate asset is huge. Property taxes, maintenance costs, and mortgage payments add up quickly, leaving little free cash for the owner.

Even if you build good equity in your rented unit, it's not as liquid as a stock or a bond could be. And it's not guaranteed that when you're ready to sell, the market is on your side.

But Canada's booming real estate market during the past decade has lured many retirees into this asset class. According to a recent study by Ontario Securities Commission, of the 1,516 people surveyed in Ontario, 37% said they are counting on increases in the value of their homes to provide for their retirement.

Investing in REITS

One way you can get exposure to this important asset class is to buy units of quality real estate investment trusts (REITs). In Canada, REITs have been hugely popular among investors whose investing objective is to earn a steadily growing passive income.

The biggest advantage of investing in REITs is that you don't have to take a huge risk of investing on your own and deal with all the issues that come with managing a rental property. Instead, professional managers do that for their unitholders (investors).

If you're interested in adding a quality REIT in your portfolio, you can consider **RioCan REIT** (
TSX:REI.UN

). This is the largest Canadian REIT with a market capitalization of $7.4 billion. Approximately 30% of its revenues originate from quality tenants.

Currently, RioCan is in the middle of a turnaround in which it's diversifying its portfolio to include more residential properties and exit from some smallest markets.

Trading at $24.14, RioCan currently yields around 6% and pays $1.44 a share in a yearly distribution. RioCan also provides great value. The company is currently trading 42% below its enterprise market value of $13.5 billion.

The bottom line

If you're thinking of adding real estate in your portfolio, the best approach is to buy some quality REITs instead of buying rental units on your own. You should have a long-term investing horizon to fully utilize the potential of your real estate holdings.

CATEGORY

1. Dividend Stocks
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TICKERS GLOBAL

1. TSX:REI.UN (RioCan Real Estate Investment Trust)

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hanwar