



Is It Really Worth It to Invest in a Rental Property?

Description

In my city, the gross rental yield is about 3.8-4.7%, which means my effective [rental income](#) after deducting taxes and expenses will be even less.

Additionally, being a landlord comes with a lot of responsibility. If the toilet leaks, you've gotta get it fixed. If the tenant refuses to pay rent, you've gotta chase after them. You've got to pay property taxes. And if you own a condo, you've got to pay strata fees, a mandatory monthly fee that covers maintenance.

It's going to take between 10 and 30 years to pay off the entire mortgage. The longer it takes to pay off the mortgage, the more interest you'll be paying.

You only start to earn real income after you've paid off the mortgage in its entirety.

How much are you *really* paying for your property?

If your down payment is \$45,000 on a \$450,000 property, you'll need to pay for the mortgage insurance premium (\$12,555 in this case), which is 3.1% for a down payment of 10%. So, you'll end up with a mortgage of \$417,555.

Currently, the five-year fixed mortgage rate is going for about 3.66%. To simplify, let's assume the rate stays the same until you pay off the mortgage in 25 years. You'll be making monthly payments of about \$2,126 to your lender. In total, you'll pay \$637,914 to your lender, including \$220,359 of interests.



What if you invest the amount in Brookfield Property?

Investing the \$45,000 in **Brookfield Property Partners** ([TSX:BPY.UN](#))(NASDAQ:BPY) instead generates gross annual income of about \$3,060 in the first year based on its current yield of 6.8%.

If you continue to invest \$2,126 per month back into the stock and your Brookfield Property investment is compounded annually for an 11.8% rate of return (estimated by the 6.8% yield and a 5% growth rate), your investment would become more than \$4 million in 25 years!

The yield on cost on the original \$45,000 would be over 23%! And on a 6.8% yield on the +\$4 million, you'd be generating gross annual income of +\$274,000. On a 5% yield, you'd get gross income of +\$201,500 per year.

Notably, in the previous section, we didn't account for the price appreciation of the rental property over the 25-year period and the income potential of the property 25 years later.

Get a fortune of passive rental income from Brookfield Property

I can get roughly 1.5 times more gross income from an investment in **Brookfield Property Partners** ([TSX:BPY.UN](#))(NASDAQ:BPY) instead of investing in a rental property around where I live. There's no lender breathing behind my neck to remind me to pay for my mortgage every month.

Brookfield Property's juicy yield is supported by an enormous empire of mostly income-producing properties, from office towers to malls and from self-storage assets to student housing and manufactured housing.

Get income growth from Brookfield Property

You're getting rental increases for your Brookfield Property investment. You can expect to get a raise of 5-8% every year with no work on your part.

Combining the [investment prowess of the experienced management team](#) with the organic growth inherent in the portfolio makes the 5-8% raise a reality. Since 2014, Brookfield Property has increased its cash distribution per unit at a compound annual growth rate of 6%.

You'll be thrilled to know that more growth is coming. You see, Brookfield Property has a pipeline of core office and multifamily projects that will largely be completed this year with some having completion dates as far out as 2022.

Risk control

As a means of keeping risk in check, management is careful to limit development projects to be less than 10% of total assets.

Further, the debt that Brookfield takes on is generally at the asset level. This means that if there's a problem property, in the worst-case scenario, the lender takes away the property — the rest of the roughly \$188 billion of assets Brookfield Property has under management remain intact.

Investor takeaway

When you invest in a rental property, you use debt to increase your future net worth. You expect the property to generate income and to appreciate in value over the long term.

I prefer to generate likely a higher rate of return and passive income from diversified Brookfield Property without having to lift a finger.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:BPY.UN (Brookfield Property Partners)

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Date

2025/07/17

Date Created

2019/03/10

Author

kayng

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