



New to REITs? What You Need to Know About This Hassle-Free Way to Invest in Real Estate

Description

As a former rental property owner, I know firsthand the hassles associated with being a landlord, from the calls in the middle of the night to fix a tiny water drip to the panicked calls when the sump pump fails during a heavy rainstorm. Trying to make money in rental real estate can be a major pain. It's also expensive with the costs of insurance, maintenance, and unexpected repairs to the property. And, of course, dealing with tenants can be very frustrating.

But there is a concept that allows investors to participate in the rental real estate market without purchasing individual properties.

Introducing REITs

A real estate investment trust (REIT) is a publicly traded organization that primarily invests in income-producing real estate assets. The income generated from the assets, such as the rent collected from the tenants, is dispersed back to the investors in the form of dividends.

REITs, like rental properties, come in all shapes and sizes. For example, REITs are available that specialize in residential properties, retail spaces such as malls, office spaces, large commercial buildings, healthcare or industrial spaces, or self-storage facilities.

Investors in REITs make money through dividends and stock appreciation. Like all public companies, the share price of REITs can go up or down. However, the valuation method for a REIT is different than that of a traditional company. REITs are valued using the estimated cash flows from the various property holdings based on each property's life term, not on earnings or historical book values.

While there are several ways to determine the value of a REIT, one of the most popular is a net asset value (NAV) calculation. The NAV is the market value of all assets, including cash and indirect property assets, net of liabilities and distributions.

Canada's two largest REITs

The two largest REITs in Canada are **Choice Properties REIT** ([TSX:CHP.UN](#)) and **RioCan REIT** ([TSX:REI.UN](#)).

With last year's acquisition of Canadian REIT, Choice Properties became Canada's largest REIT. Choice Properties operates as the owner, manager, and developer of over 750 properties across Canada. Combined, these properties span almost 70 million square feet of leasable property, primarily focused on supermarket-anchored shopping centres and standalone supermarkets. The principal tenant of Choice Properties is Canada's largest retailer, **Loblaws**. With a market cap of \$9.86 billion, Choice Properties currently has a dividend yield of 5.49%.

RioCan owns, manages, and develops mixed-use properties, primarily focused on retail properties in high-density areas. Its portfolio consists of over 230 properties with a leasable area of approximately 38 million square feet. With a market cap of \$8.18 billion, RioCan is Canada's second-largest REIT.

RioCan currently has a dividend yield of 5.52%. The company has a [long-term redevelopment strategy](#) with plans to concentrate in Canada's six largest cities (Vancouver, Toronto, Montreal, Ottawa, Calgary, and Edmonton).

The downside of investing in REITs

REITs are not high-growth assets. While the popularity of [certain real estate sectors varies](#), occupancy can fluctuate based on location and the type of property. Count on REITs to provide steady dividends, rather than a short-term rise in share price.

The underlying properties in REITs are typically highly leveraged. Prior to the last financial crisis, many REITs purchased overvalued properties using cheap credit, which backfired during the downturn. REITs are also considered to be rate-sensitive investments because of the large debt burdens.

Bottom line

Most investors seeking a diversified portfolio are rightfully hesitant to buy individual rental properties. The potential pitfalls of being a landlord, including time constraints, expenses, and trouble with tenants, discourage many would-be real estate investors. However, REITs offer a hassle-free way to add real estate into your investment portfolio. With a wide choice of REITs specializing in different real estate sectors, investors can find a REIT to fit their individual investing style.

CATEGORY

1. Investing
2. Stocks for Beginners

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:CHP.UN (Choice Properties Real Estate Investment Trust)
2. TSX:REI.UN (RioCan Real Estate Investment Trust)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing
2. Stocks for Beginners

Tags

1. Editor's Choice

Date

2025/08/18

Date Created

2019/06/20

Author

cdye

default watermark

default watermark