Build a Tax-Free Real Estate Empire With REITs and Your TFSA!

Description

Many investors dream of becoming landlords. It's easy and you risk less money, or so many folks are told.

Sorry to burst your dream of becoming a collector of passive income from physical properties, but becoming a landlord can be its own full-time job. For most people who aren't "handy," being a landlord can be a huge pain in the neck, as maintenance and other administrative tasks mount.

Moreover, by becoming a landlord, you're probably also not getting the geographic diversification you need. If you're from Edmonton, your options are limited to that of the ailing Edmontonian real estate market, which has been treading water for a considerable amount of time now. Although you could buy property on the other side of the country with the intention of managing it remotely, you're going to have to fork over a pretty penny to professional real estate managers to take care of the "dirty work" that comes with being a landlord.

That's a lot of work that's not worth the effort for most Canadians. To top it all off, you're going to have to hand over a good chunk of your rental income to the tax man!

Fortunately, there is a way to become the owner of your own little real estate empire without having to worry about tenant complaints, long-lived asset depreciation, or even accounting. And best of all, you won't have to surrender a good chunk of your rental income to the tax man if you leverage your TFSA.

With REITs, you can easily spread your bets across various real estate sub-industries, geographies, and managers. You don't need to worry about broken washing machines or how much money you'll be left with after all expenses and taxes. You just set, forget, and collect.

If you're from the red-hot Vancouver housing market, for instance, you know the rental state of emergency that the area is in right now. Many young people will never be able to afford a home in the city, and with mortgages that are harder to land, renting has become the only option, and that's allowed the providers of rental units to call the shots.

Canadian Apartments REIT (TSX:CAR.UN) is a way to play the side of the rental unit provider in such a market that's suffering from such a massive rental unit supply shortage. CAPREIT commands big rents because the favourable market conditions for rental unit providers allow it to. In a renter's market, or a rental market that's in a state of equilibrium, such high rents wouldn't be possible.

A majority of the massive rents go right back into the pockets of shareholders in the form of a distribution. As the REIT increases its footprint in its markets of interest, investors can expect generous distribution hikes and capital gains to follow, as they have been over the past several years.

If you're a renter in Vancouver and can't burden yourself with a mortgage at this juncture, consider hedging yourself with a stake in CAPREIT. And if you're looking for one of the hottest rental markets on the planet, you may want to include CAPREIT as a core holding in your TFSA REIT fund.

Foolish takeaway

As a TFSA REIT investor, you get flexibility, greater diversification, and ultimately, a better bang for your buck over the long term versus becoming an actual landlord. So, just let the professionals take care of the administrative tasks and go on the hunt for sub-industries and localities that you're keen on owning property in.

When it comes to the physical Vancouver real estate market, you'd need to be a multi-millionaire even to get a toe in the real estate investment waters. But with CAPREIT, it's easy, and all it takes is $49 and change to have your share of the opportunity at hand.

Stay hungry. Stay Foolish.

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joefrenette