4 Reasons to Invest in Stocks Over Real Estate

Description

It is the goal of many Canadians to own an investment property that can provide them with rental income. Many people view real estate as a safe investment that will always appreciate in value, or, at the very least, provide additional income.

There is a lot to like about real estate. Unlike stocks, it is a physical and tangible thing that you can live in or rent it out to other people for added cash flow. There can be a pride of ownership and a deep emotional attachment to the property you own.

But there is also a lot to dislike about investing in real estate. Here are four reasons why stocks are a better investment than real estate.

Borrowing money increases risk

If you're investing in real estate, you will likely be borrowing money in the form of a mortgage. While leverage can be a great thing if your investment is going up, it can hurt if the real estate market is going down.

If you have put a down payment of 20% onto an investment property, you are leveraged five times on your initial investment. If the real estate market goes down 20%, you will have lost 100% of your initial investment.

If your circumstances force you to have to sell the property at this time, this is a total loss that you will take on your initial investment. There is also the considerable transaction costs for the realtors and lawyers you will need to pay.

Stocks are more liquid

You can buy and sell shares quickly and for minimal transaction fees. Most online brokerages charge less than $10 per transaction. However, real estate has enormous fees for transactions. These fees can subtract significantly from your returns.

Your time is money

An investment property is way more time consuming than owning stocks. There's the time to buy the property, manage the tenants, and eventually to sell the property. If you have the misfortune of having bad tenants, this will drain more of your time and resources.

You can't hold an investment property in your TFSA or RRSP

Your investment property won't qualify as your principal residence. You will need to pay taxes on rental income and capital gains if you sell the property. Compare this to stocks, where if you have the room in your TFSA or RRSP, your returns will be tax-exempt or tax-deferred until retirement.

Get the best of both worlds

If you'd like to increase your investments in real estate, an easy way to do this is through a real estate investment trust, or REIT. You don't need to limit yourself to one region or type of property but have access to commercial, residential, and nationwide properties.

Choice Properties REIT (TSX:CHP.UN) is an example of a diversified REIT that doesn't just invest in residential real estate. The market capitalization of Choice is $4.21 billion, and it is one of the largest REITs in Canada. The company has over 756 real estate properties covering over 67.7 million square feet of leasable space.

Choice has a premium tenant, which is **Loblaw**, and this is a critical competitive advantage that the company holds. Most of the properties that Choice owns are shopping centres and standalone supermarkets. The company's current dividend yield of 5.39% is higher than a lot of the rental yields across Canada for residential properties. If you were to own an investment property in Toronto, gross rental yields would range from 3.9% to 5.5%.

The best part is the ease of transaction for investing in a REIT. It's as simple as buying a stock.

In conclusion

Real estate is an important sector to add to your portfolio. You don't have to jump through hoops and pay expensive realtor fees to add it. Consider becoming a landlord with REITs.

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

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