



Can't Afford a Rental Property? Here's a Better Way to Invest in Real Estate

Description

Real estate has been a rewarding sector the last five years, driven by high demand and low interest rates. It will continue to outperform going forward, and investors should want to get in on the action.

When most people think of real estate, they think of owning a rental property. This is a great idea, but it takes a ton of work and a large chunk of cash. In addition, that large chunk of cash will be tied up in one asset in one sector that's in one location.

A more optimal way for investors to get into the real estate sector is to own [real estate stocks](#) and investment trusts. By having a number of options on the stock market, investors can choose asset types, locations, and, most importantly, valuation.

Two top real estate stocks I would recommend investors start their research on would be **First Capital Realty** (TSX:FCR) and **InterRent Real Estate Investment Trust** ([TSX:IIP.UN](#)).

First Capital

First capital is a large-cap real estate company that owns 165 properties with over 23 million square feet of leasable space. On a fair-value basis, it has 47% of its portfolio in Ontario, 20% in eastern Canada, and 33% in western Canada.

The company is an industry leader and continues to invest in developments in high-growth urban neighbourhoods. At the same time, it's strategically disposing of non-essential assets to de-lever the balance sheet as well as fund the next round of growth projects.

The investments it's making are data driven, and it's focused on building developments in suburban areas that have a growing population density and are preferably located in higher-income neighborhoods.

The strategy has been paying off, making First Capital an industry leader when it comes to rent prices, same-property net operating income growth, and lease renewal rate increases.

Since the beginning of 2016, net asset value per share has grown at a compounded annual growth rate (CAGR) of 6.7% and funds from operations (FFO) per share have grown at a CAGR of 6.9%.

Its portfolio consists of a wide variety of tenants from grocery stores to fitness facilities. This helps to diversify the portfolio, as the largest industry of tenants only accounts for 17.1% of the portfolio.

Of its top 20 tenants, 14 have investment grade credit ratings, and they make up roughly 40% of the portfolio's average minimum rents.

The company's revenue is highly stable and so is its dividend. It currently has a FFO payout ratio of just 71% on a dividend that is yielding just under 4%. At a P/E of just 16 times, it's pretty decent value for a leading real estate company.

InterRent

InterRent is a growth-oriented real estate trust that owns multi-residential properties. Its business model consists of buying older buildings in need of repair and maintenance at a discount to fair value.

It then renovates and improves the facility to improve the quality, which immediately makes the building worth more and allows the company to increase the rent to match the new value the building offers.

This strategy has been extremely successful for the company. Since 2009, investors have earned a total return over 1,000%. Its three-year annualized revenue growth is 15.33%, and it has a CAGR of its FFO per unit of 24%.

InterRent internalized its property manager in 2018, so it now manages all of its own properties. This has been an important synergy that cut costs for the company and opened the opportunity for increased revenue.

It pays a small dividend that yields just 1.8%, but that is because it keeps most of its cash for future purchases to fuel its growth. For the last few years, the payout ratio has stayed right around 70%.

The stock's performance the last 12 months is impressive, up almost 40%. In the last three years its up nearly 90%.

At a P/E ratio of just 15 times, InterRent is an absolute steal, especially for a company that has a five-year average return on equity of 13.8%.

Bottom line

Looking for real estate investments in the stock market is a great way for investors to give themselves tons of choice, diversify their investments, skip the property management, and have no minimum investment amount.

CATEGORY

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

TICKERS GLOBAL

1. TSX:FCR.UN (First Capital Real Estate Investment Trust)
2. TSX:IIP.UN (InterRent Real Estate Investment Trust)

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Author

danieldacosta

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