Lazy Landlords: Start a Real Estate Empire With These REITs

Description

Becoming a landlord isn't all it's cracked up to be. It's not merely a passive income stream that'll line your pockets with monthly cash with no effort on your part. Being a landlord can be its own full-time job, and after all the searching for new tenants, repairs, maintenance, insurance, utilities, taxes, and all the sort are taken care of, you may even need to chase your tenants for the month's rent!

Unless you're a handyman (or handywoman), you'll probably have to hire someone to fix up the issues that always tend to happen at the worst possible times. Who can enjoy a vacation when you've got tenants calling you up about more problems?

So, if you've got cash in hand and would rather put it to work in a "safe and bountiful" alternative asset like real estate, consider REITs instead of levering up to buy physical rental property.

With REITs, maintenance, renovations, and all the sort will come out of the cash flows, and ultimately shrink the distribution you'll get. With REITs, however, you're putting everything on autopilot, and the best part is that you're getting the expertise of some folks who know how to better maximize returns on invested capital.

In this piece, we'll have a look at two REITs that have been doing a stellar job of making significant total returns for shareholders over the years. While it's nice to have higher yields, it's in the best interest of growth-savvy investors to focus on achieving high total returns over time (capital gains + distributions).

Without further ado, consider the following REITs:

Interrent REIT

Interrent REIT (TSX:IIP.UN) shares have nearly tripled over the last five years thanks to the REIT's proven strategy of buying residential real estate for cheap, renovating units, and cranking up rents.

In simple terms, Interrent is the ultimate play on unlocking value through renovations. The model works and will continue to pay massive dividends for years to come.

Buying poorly-managed, worn-down real estate with the intention of sprucing it up is a perilous endeavour for all but the most experienced of landlords. As a DIY landlord, you'd be hard-pressed to achieve gains of a similar magnitude to that of Interrent.

They know the ins and outs of the business and are excellent when it comes to mitigating the risks involved with acquiring potential residential buildings. It's not just about making old properties look new: it's about making sure such older units are safe for tenants to reside in for decades at a time.

Although the 1.8% yield is lower than that of your average stock, the main attraction to the name is the capital gains and the AFFO growth potential.

The REIT's chart looks like that of an equity. So, why not just invest in a growth stock?

Interrent, like most REITs, has a low correlation to the broader markets and are subject to a lesser degree of volatility relative to equities. It's a smoother ride up, and as an "alternative asset," Interrent allows an equity-focused portfolio to be better diversified.

Canadian Apartment Properties REIT

Canadian Apartment Properties REIT (TSX:CAR.UN) is another lower-yielding REIT (2.6% yield) that's more than doubled over the last five years. While CAPREIT does have a smart management team that knows how to maximize ROEs for investors, you can throw the REIT in the "fortunate and able" category.

The REIT was fortunate enough to own properties across white-hot rental markets like the Greater Vancouver and Toronto areas. Both rental markets, Vancouver in particular, are suffering from an affordability crisis. It's a crisis for renters who have no choice but to pay ridiculously high rents, but for those who provide rental units, it's a free lunch.

As rental units are in such high demand (and short supply), CAPREIT is able to hold off on lower-ROE renovations in older units and focus on new developments in order to maximize AFFO growth. Certainly, it's not the best situation for tenants, but it is a compelling opportunity for investors.

With no signs of the Vancouver or Toronto markets cooling down, CAPREIT is likely to continue to post out-sized returns over the next five years and beyond.

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TICKERS GLOBAL

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2. TSX:IIP.UN (InterRent Real Estate Investment Trust)

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