



5 Reasons Why I'll Never Buy an Income Property

Description

Income properties sound like good ideas, and for some, they may be the perfect asset to provide passive income, but I would rather invest in residential real estate investment trusts (REITs). Here are five benefits to investing in REITs that I believe make them superior to owning a rental property.

No minimum amount

For starters, there is no minimum investment; buy as many shares as you want.

Rather than waiting until you have an adequate amount for a down payment, you can start to buy shares of residential REITs as soon as you have any savings and add to them whenever possible.

Flexibility on valuations

When buying your investment, you get the advantage that REITs are a lot more volatile. While some may see this as a disadvantage, I believe it's an advantage for long-term investors, because you can wait till prices are reasonable and then invest.

Anyone that has wanted to buy a rental property in Toronto or Vancouver housing markets the last few years would have had to either buy in at crazy prices or put off the investment until more affordable times.

REITs are diversified

Since there is no minimum investment, you have the ability to invest in multiple REITs and diversify yourself, even with just a few thousand dollars.

Furthermore, even if you only bought one REIT, it will be diversified, with multiple buildings and properties in many different cities and provinces.

When you buy an income property, you are exposed to that one location in one city, and if any problems arise, it could impact 100% of your operations.

Better scale

In addition to the diversification, you get better scale with REITs. Not only does this make a huge difference when acquiring and developing properties, but it helps to insulate the company's earnings and occupancy rates.

When you invest in a REIT, you could make the same cap rate as a rental property, but the risk to your income is severely reduced.

It is less risky because an investment in a REIT is like an investment in the entire sector, and it's highly unlikely occupancy rates would fall to even 75%, yet on a rental property they could fall to zero.

Liquidity

When you buy units of a REIT, they are highly liquid, so if you run into any financial issues, or you want to divest some profits from the sector and recycle that capital to a different sector, you can easily do this, and with minimum transaction costs.

If you need to sell an income property, it is much less liquid; therefore, it will take you a lot longer, and the transaction costs can be quite large.

For these reasons, I will always stick to REITs. One of the top residential REITs with promising room to grow is **Boardwalk REIT** ([TSX:BEI.UN](https://www.scribd.com/document/444444444/TSX:BEI.UN)).

Boardwalk REIT

Boardwalk is one of the largest residential REITs in Canada with more than 220 properties and roughly 33,000 total units. It operates in Alberta, Ontario, Saskatchewan, and Quebec.

Boardwalk is headquartered in Calgary, and much of its exposure in its portfolio is to the Albertan economy. Edmonton and Calgary alone make up roughly 58% of the company's net operating income, and while residential real estate is very defensive, the economy can still have an impact on business.

Boardwalk has managed it well though, and the Albertan real estate market is showing signs of improvement, as rent incentives are decreasing across the sector.

Going forward, it plans to diversify its portfolio away from Western Canada, which seems sensible. It also has been disposing of older properties and reinvesting the capital in new properties in key markets or in development projects.

As Alberta's market continues to improve, and the rest of Canada continues to grow, Boardwalk is primed to be one of the best investments in the sector.

Bottom line

You may like boardwalk as an investment, or you may want to consider other options. At the moment, there are a number of [opportunities](#) available in residential REITs, especially because of how hot the real estate market has been in most parts of the country for so long now.

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TICKERS GLOBAL

1. TSX:BEI.UN (Boardwalk Real Estate Investment Trust)

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Author

danieldacosta

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