Forget Buying a House: Buy This REIT Instead and End Up Richer

Description

It makes little sense to buy a house after one of Canada's greatest real estate bull markets.

For real estate to be a good investment, it needs to produce sufficient income. Canadian housing yields close to 4.5% today, which means the actual income generated from rental properties is even less after subtracting expenses (like property taxes, mortgage interest, home insurance, and utilities).

If you're thinking of entering hot markets like Toronto or Vancouver, the returns could be worse.

I'm not saying that folks shouldn't own homes. There are plenty of advantages to owning, including stability and cost certainty. But usually it's not a wonderful investment, especially after an over 200-year run up.

Currently, owning REITs over buying a property is a better way to get ahead. Here is a fabulous REIT to get you started.

Brookfield Property yields 7%

Brookfield Property Partners (TSX:BPY.UN)(NASDAQ:BPY) is an owner, operator, and developer. It oversees a global portfolio of primarily quality office and retail properties from which it generates stable rental income.

BPY is redeveloping parts of its core retail portfolio, which will be a medium-term drag but a long-term positive on the business. As of writing, the stock yields about 7%.

In the first three quarters, BPY generated funds from operations of US$810 million. Adding realized gains from property sales, the profitability came to US$1.05 billion. This further protected the stock's cash distribution.

Brookfield Property has about 15% of its balance sheet focused on outsized total returns of over 18% per year. Because of its close relationship with **Brookfield Asset Management**, BPY has unique opportunities to participate in lucrative diversified private real estate funds.

These funds have largely delivered total returns of 11-20% per year over periods of two to 13 years, as each fund began in different years. Essentially, Brookfield Property has, on average, more than doubled its original investments on these funds.

For example, even during the last financial crisis in 2009, Brookfield Asset Management (Brookfield Property was a part of Brookfield Asset Management at the time) had the capital to invest in a real estate turnaround fund that delivered returns of more than 38% per year since then.

By investing in Brookfield Property in your RRSP/RRIF when the stock is discounted now, you can earn a juicy yield of about 7% without having to take on any debt.

Moreover, you can count on Brookfield Property's professional team to manage the real estate portfolio and debt maturities well while increasing the cash distribution over time. BPY aims for 5% to 8% dividend growth per year.

Investor takeaway

Buying real estate today is a markedly different story than it was 20 years ago. Interest rates are at historic lows while real estate prices are at historical highs with affordability issues.

If you're really looking to make an awesome return owning real estate, forget about buying a property of your own and invest in REITs like Brookfield Property that offer safe high yields and access to global opportunities.

CATEGORY

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TICKERS GLOBAL

1. TSX:BPY.UN (Brookfield Property Partners)

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Date
2025/07/07
Date Created
2019/12/26
Author
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