Forget Buying Just 1 House in 2020: Buy All of Them Instead With This REIT ETF

Description

An option for an individual investor to create passive income is to purchase a house or residential property. You become your own boss and choose the tenants. Over time, the property value will also rise. Thus, you derive both property income and capital appreciation.

However, are you willing to let go of significant capital, build contractual relationships, or even take out a mortgage? Along with buying property comes management and maintenance responsibilities.

You can forego the headache and forget about buying rental property in 2020. A Canadian real estate investment trust exchange-traded fund (REIT ETFs) can grant you quick and cheap exposure to a diversified portfolio of real estate properties.

Ownership of dozens of properties

A REIT ETF is a kind of investment that will enable you to invest in a real estate portfolio at the lowest possible cost. These ETFs have liquidity and trade on the stock market like regular stocks. Your ownership is in dozens of real estate properties, not just one.

One such REIT ETF is **Vanguard FTSE Canadian Capped REIT Index ETF** (TSX:VRE). Through VRE, you're almost like a landlord owning a wide range of Canadian real estate firms. Since the fund's formation in February 2012, VRE's assets under management (AUM) are worth $246.23 million.

The said assets are spread across 18 REITs, of which the top 10 comprise about 77.2% of VRE's total assets. Your exposure would be in small-, mid-, and large-cap Canadian real estate companies. VRE tracks the performance of FTSE Canada All Cap Real Estate Capped 25% Index.

Prominent names

In addition to being one of the leading Canadian REIT ETFs, VRE offers a compelling yield and pays the distributions monthly. Industrial and office REITs comprise 32.2% of its portfolio followed by 21.3%

in residential REITs. The weight of retail is 20.3%, while 8.8% is in diversified industries.

The distribution yield of this fund is 3.16%. VRE's year-to-date daily total return is 18.94%, and its three-year return is 10.03%.

Prominent names from the real estate sector comprise VRE's holdings. The top five are **RioCan REIT** (12.9%), **Canadian Apartment Properties REIT** (11.4%), **H&R REIT** (10.6%), **Allied Properties REIT** (8.4%), and **SmartCentres REIT** (6.8%).

The five names are the best of the REIT lot. You have the option to invest in the stocks individually depending on your asset class preference. Some of these REITs pay higher dividends than VRE or other ETF REITs.

Instant diversification

Investing directly in real estate by purchasing a physical property to rent out is not a bad idea. However, it involves higher capital and in-depth research. You need to spend more time to oversee or maintain the property. A vacancy could also lead to no income from the property.

For the above reasons, a REIT ETF becomes an appealing alternative. There's less money out, lower incidental expenses or fees, more convenience, and instant diversification. Likewise, a REIT ETF requires minimal monitoring by real estate investors.

Before buying an income property, weigh your options thoroughly. Will the pressure of owning a real estate property for investment purposes be worth it? You might be better off paying for less and earning income from a REIT ETF like VRE.

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