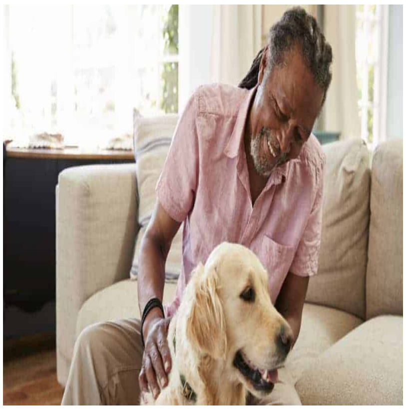

Real Estate or Stocks: What's Best for Passive Income in Retirement?

Description

No other topic kicks off a more heated debate than real estate investing — especially in Canada. You've probably suffered through hours of conversation about mortgage rates, rental yields, your parents' downsizing retirement plan, and your cousin's insane profits on a lucky house flip.

However, only a small portion of savers ever consider investing in stocks or exchange-traded index funds instead of buying a condo or flipping a house. That's probably because the stock market is considered "risky" and complicated.

With that in mind, here's a comparison of the these two asset classes for investors seeking a safe and stable passive income in retirement.

Real estate vs. Dividend stocks

The key metric for a retiree investor looking to generate passive income is yield. Earning a 2% yield on your savings account is simply inadequate, which is why investors look to either rental properties or dividend stocks.

According to the Global Property Guide, the gross rental yield in Canada is roughly 3.91% at the moment. That's far better than a savings account. However, the net yield is actually lower. When you factor in the cost of the mortgage (roughly 3%), maintenance (roughly 1%), and utilities, your net yield could be far lower.

In fact, most residential properties in the country's two largest cities, Toronto and Vancouver, do not generate positive cash flows at all.

Now, real estate does have advantages. Leverage can make your return on equity higher, and properties with positive cash flow can genuinely create a robust income stream for retirees. However, I would argue that the time and effort in maintaining a property makes it less than "passive."

Meanwhile, the Canadian stock market has delivered an annualized total return of 7% over the past 10 years. Several blue-chip and stable dividend stocks, like **CIBC** and **BCE**, offer dividend yields higher than 5%. Is a bank or telecom stock riskier than residential real estate and mortgage interest rates?

That's for you to decide.

However, I would argue that clicking a button to buy a stock is far more passive than any real estate investment.

A third option

There is, of course, a third option for investors: real estate investment trusts (REITs). In fact, I believe this asset class combines the best of both worlds and offers retirees robust passive income along with a chance for some capital appreciation as well.

These trusts own and manage portfolios of income-generating real estate and pay most of their cash flow out to investors in the form of a dividend. They trade on the stock market just like regular stocks, which makes them ideal for passive-income seekers who don't have time to repair rental properties or advertise for vacant rooms in their property.

Canadian Apartment Properties REIT (CAPREIT) is probably one of the largest property trusts in the country and one of the best performers over the past few years. The stock currently offers a 2.6% dividend yield, and the stock price has surged 110% over the past four years alone.

Other REITs, like **RioCan** and **Brookfield Property Partners**, offer dividend yields higher than 5%. There's plenty of great options for investors willing to do their research in this sector.

Bottom line

Managing real estate is time consuming, while investing in stocks is more complicated and risky. A high-yield and robust REIT is probably the best option for investors seeking passive income.

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