Landlords: Forget About a Condo — Buy This Diverse REIT Instead

Description

Many Canadian investors dream of owning their own portfolio of income-producing properties, enticed by the recent success of the strategy. Landlords in Toronto, Vancouver, and other large cities have been treated to tight rental markets, rising rents, and, perhaps most important, consistent capital appreciation on their properties.

It's a strategy that has worked in almost every Canadian city for the last 20 years. Why would it start to fail now?

Buying physical real estate has other advantages, too. A big one is you can use a relatively small down payment to secure an expensive piece of property.

This leverage enhances returns, but it's a double-edged sword. It can also magnify losses if prices go down. Additionally, having a big mortgage on a property is especially terrifying if you can't find a renter.

There are other disadvantages to owning your own real estate empire. It's a fair amount of work, especially if you're one of those landlords that maximizes profitability by doing repair work yourself.

Choosing the right tenant is never easy, and just one scam artist can ruin years of profits. You can entrust everything to a property manager, but they're expensive. Besides, nobody really cares about your properties as much as you do.

Then there's the diversification issue. Putting all your eggs in one basket is never a smart investing strategy, no matter how bullish you might be on the underlying city.

Owning a bunch of condos in one city — or even one neighbourhood, as some investors do — is setting yourself up for disaster. The better strategy is to own a wide variety of real estate, both in other cities and across various asset classes.

Fortunately, there's a solution to all this. Investors can buy REITs, real estate investment trusts that own large portfolios of properties across a variety of cities and real estate types.

In fact, there's one that offers exposure to every different asset class across North America. Let's take a closer look.

Enter H&R REIT

H&R REIT (TSX:HR.UN) is probably Canada's most diverse owner of real estate. It owns retail, office, industrial, and residential property all across North America. In total, its portfolio is more than 41 million square feet of gross leasable area and owns $14.3 billion worth of assets.

One of the best parts of owning a diverse REIT like H&R is disappointing performance in one location doesn't ruin everything. H&R has exposure to the Calgary office market, which is among the worst real estate markets in North America today.

Results from Calgary are still fine, however, and the struggling market hasn't really impacted the stock, as it represents just a small portion of the bottom line.

The company is currently in the midst of a big residential expansion project. It recently completed a big high-end apartment complex in a New York City suburb with additional developments in various stages of completion in Miami, Austin, Long Beach, San Francisco, and Seattle. It also has new buildings planned for the red-hot Toronto market, redeveloping some of its retail assets there into mixed-use facilities.

A big part of any real estate investment is the cash flow generated, and H&R certainly delivers on that front. Its current yield is a robust 6.3% and the company has a payout ratio in the 80% range. Given its diverse portfolio, you don't have to worry about this yield. The underlying economy has to get pretty bad before it's in danger.

The bottom line

H&R REIT is the perfect investment for someone looking for a passive way to create their own real estate empire. This high-quality stock features a diverse portfolio, excellent management, growth potential, and, perhaps best of all, a fantastic distribution yield.

It's the perfect way to build your own real estate empire without having to sacrifice your precious free time.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:HR.UN (H&R Real Estate Investment Trust)

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Date
2025/08/20
Date Created
2020/01/30
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