Forget Real Estate Investments, Buy REITs!

Description

With the stock market crashing and interest rates tumbling, now seems to be as good a time as any for real estate investments.

However, investing in real estate isn't the only method of generating passive income — buying REITs is just as good, or better, depending on the investor.

Real estate investments

Of course, there's no denying the earnings potential of a good real estate investment.

In theory, you simply front the down payment, charge more for rent than you pay for the mortgage, pocket the difference and eventually sell the house for much more than you bought it for.

However, there are a lot of finer details and things that can go wrong along the way.

For one, you have to be able to afford the down payment. Even if the housing market cools with a recession, a 20% down payment is still going to be at least $50,000-100,000 — depending on the area of course. This hurdle can take a lot of investors out of the running right away.

Now, even with the down payment covered, there can be a lot of issues surrounding renting the property out. Staging and showing the place, carrying out repairs, footing bills, property tax, and so on and so forth. These things simply eat away at your time and your bottom line.

So, in order to avoid these types of issues, REITs can be preferable to traditional real estate investments.

Advantages of a REIT

REITs generally don't require a minimum investment, as they trade just like a stock. So, you needn't worry about being able to put six figures down from the onset.

As well, when you buy into a REIT, you're not going to be directly managing any property. You won't be responsible for going out and fixing a busted fridge or finding a new tenant.

You simply invest your money with the REIT and they take care of all of that.

Disadvantages of a REIT

Obviously, you don't have control over the properties the company chooses to buy. It's therefore important to choose REITs that align with your investment philosophy from the beginning.

As well, you generally aren't going to make a ton of money on your principal investment with a REIT. While the monthly income you can generate is quite substantial, REITs tend to just bounce around in price rather than outright grow over time.

So, come time to sell, you'll more or less be getting your principal investment back, whereas someone making a real estate investment will generally sell for more than they bought for.

Choosing a REIT

Choice Properties REIT (TSX:CHP.UN) is Canada's largest REIT and has over $16 billion in assets under management.

Most of its real estate investments are in the retail space, with a small but growing portfolio of other properties.

While its main focus is not on residential, but rather retail property, Choice is still well positioned to succeed in the near term.

This is because its retail locations are anchored by **Loblaw**, Canada's largest grocer. Thus, Choice's income and stability should be secured as Loblaw should continue to perform well as a vital service provider for Canadians.

Currently, Choice is trading at $12.87 and yielding 5.75%. At that yield, an investment of $20,000 would generate $100 a month in passive income.

Real estate investment strategy

Before making a real estate investment, consider whether it's the best action for your situation. Under some circumstances, investing in a REIT can be a far better option.

As far as REITs go, Choice is one of the most stable options for Canadians, as its anchored by its main tenant, grocery giant Loblaw.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CHP.UN (Choice Properties Real Estate Investment Trust)

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Date
2025/08/25
Date Created
2020/04/06
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