Can REITs Still Make You Rich?

Description

For years now, I've been giving investors the same advice. Rather than buying physical property, the best way to build a real estate empire is to load up on a diverse portfolio of Canadian REITs.

Owning REITs over physical property comes with many advantages. It's the ultimate lazy investment; all you really need to do is read a REIT's annual report once a year and you're up to date. You're deferring management to a REIT's top executives — smart people who do all the dirty work for a very reasonable cost.

Compare that to owning your own property. A landlord must show the place, screen tenants, deal with maintenance issues, and much more. They've essentially purchased themselves a part-time job.

REITs also allow an investor to gain access to parts of the real estate sector they could never invest in on their own. I'm not just talking retail, office, or industrial space, either. Canada has niche REITs that cover investments in areas like car dealerships, hotels, or medical property.

The strategy has been the same for decades now. Investors buy a diverse portfolio of REITs and the investment has performed well. There's been the odd straggler, of course, but for the most part, Canada's top REITs have both gone up in value and paid nice distributions. The sector has been a great investment.

But as we transition into a post-COVID world, people are starting to doubt this simple strategy. It'll likely be months until retail shops can operate fully without restrictions, giving a further boost to online sales.

Many employees may permanently work from home, thereby impacting the office sector, too. REITs are especially sensitive to these changes, since debt on the balance sheet adds an additional risk to the business model.

Will REITs still make you rich?

The uncertainty in today's market has hit the average REIT hard. Many names are down 50% compared to 52-week highs set in the earlier parts of this year.

This single event has been enough to make many investors question the presence of REITs in their portfolio. With other sectors like technology, telecoms, and utilities handling the downturn so well, some are convinced their cash should go into these more resilient sectors instead.

I think that's a mistake. Yes, there's no doubt that many retail and office REITs are weaker than they were a few months ago. But these companies own excellent real estate in Canada's major cities. If current tenants go to zero or simply move away, others will come in and take over the space. The underlying real estate will always have value.

Investors have also learned a valuable lesson from all this. We must focus on quality REITs, the types of companies poised to maintain their distribution through thick and thin. One example is **Crombie REIT**, a REIT that primarily focuses on grocery-anchored property.

It has reported strong rent collection throughout this crisis, and investors know that translates into a safe distribution. The stock currently yields 6.9%, an excellent payout in today's low interest rate world.

The bottom line

I still believe Canadian investors can get rich buying REITs and holding for the long term. In fact, the time to buy these REITs might be right now, while the price is still depressed.

As long as investors choose high-quality names — like Crombie REIT — they should do just fine over the long term So don't worry; this lazy way to create your own real estate empire should be a viable investment choice for decades to come.

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