Forget Real Estate! Buy These Stocks to GET RICH

Description

Real estate has been an incredible engine of wealth creation for millions of Canadians. Canada's median house price has more than doubled over the past 10 years. Leverage has enhanced these returns for most homeowners. The average Canadian household's net worth is now $678,792, driven primarily by this real estate boom.

However, housing across the country is now so expensive and unaffordable that future price gains could fail to match up to past performance. In other words, real estate investing is now more competitive and less lucrative than it's ever been. Coupled with the economic crisis and falling rents , savvy investors should turn their attention to other asset classes.

I believe dividend stocks from robust companies could outperform real estate over the next decade. Here's a closer look at why you should consider adding dividend stocks to your portfolio instead of expanding your real estate empire.

Passive income

The dividend yields on some stocks outweighs the average rental yield from real estate. While the *gross* rental yield in major cities such as Toronto and Vancouver ranges from 3.9% to 5.5%, dividend stocks can offer far higher returns.

BCE, for example, offers a 6% dividend yield at current prices. Canada's largest telecom company has escaped this crisis relatively unscathed. Similarly, **Fortis** and **Enbridge** offer robust dividends that haven't been dented by the pandemic.

These dividends are far greater than rental income from real estate. In fact, the difference is much wider when you consider the costs associated with rental real estate and the net rental yield after expenses.

Leverage and price appreciation

Of course, rental yield isn't the only reason investors are attracted to real estate. Record-low borrowing costs and record-high immigration have created the perfect wealth creation cocktail for landlords.

However, these factors also drive wealth creation on the stock market. Corporations can borrow at similar, if not cheaper rates, than households. BCE, for example, has $1.27 in debt for every dollar in shareholder equity. This leverage magnifies the company's return on equity and ultimately drives growth.

Meanwhile, growth stocks such as **Shopify** or **Constellation Software** have delivered capital gains that far outweigh any return from real estate. In fact, $10,000 invested in Constellation Software stock in 2010 would be worth $360,000 today. Even mortgage leverage cannot replicate that performance.

Real estate stocks

If you're still unconvinced, there's probably a better way to add real estate exposure to your portfolio without the hassle of being in debt or a landlord. Real estate investment trusts (REITs) offer all the same benefits (high income, price appreciation, leverage) without any of the downsides (property selection, maintenance, taxes) associated with this asset class.

In fact, REITs are trading at a historic discount right now. **Brookfield Property Partners**, for example, offers a 12% dividend yield and is trading at *half its book value per share*. In other words, you can gain access to Brookfield's iconic portfolio of properties at 50% discount. Over the next 10 years, this REIT could outperform the general real estate market.

Bottom line

Real estate has been a great investment. But the returns could be far less impressive over the next decade. Income and growth stocks offer better opportunities, in my opinion. Even REITs could be a better option for most investors.

Consider these stocks before you place a down payment for your next investment property.

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