Become a Mortgage-Free Landlord!

Description

There are plenty of reasons why people invest in real estate. Apart from the obvious desire to own your home, many would-be homeowners enter the market for some much-wanted rental income. Unfortunately, the cost barrier to entering the housing market is significant.

The average price of a home in much of Canada is approaching $500,000, and in the metro areas of Toronto and Vancouver, the price is handily over $1 million. This essentially makes the prospect of being a mortgage-free landlord a dream at best.

Or so it would seem. There are ways to become a mortgage-free landlord and reap the rewards of a rental income, without the pain of a mortgage and tenants. This is where REITs such as **RioCan Real Estate** (TSX:REI.UN) come into play, and here's why RioCan could be the perfect option for your portfolio.

RioCan: Yesterday and today

For those that are unaware, RioCan has changed significantly over the past few years. RioCan is still one of the largest REITs in the country, with a massive portfolio of over 220 properties across Canada. In total, RioCan boasts a net leasable area across those properties of 38.6 million square feet. Most of those properties are leased out to some of the largest names in Canadian retail and financial markets.

Further to this, no single tenant occupies a majority of RioCan's portfolio, and the company boasts an impressive 96.4% occupancy rate. This provides both an element of revenue stability while providing a defensive moat that prospective investors will cherish.

In terms of results, RioCan provided results for the second fiscal of 2020 last month. The quarter reflected the impact of much of the economy being shut down due to the COVID-19 crisis. Despite that, the company still managed to collect 73% of its rent that came due during the quarter. The company noted that this past quarter was "the most challenging quarter ever" for many of its tenants.

For the quarter ending June 30, RioCan reported a net loss of $350.8 million. By comparison, in the same period last year, RioCan reported net income of $253 million.

If there was one bright spot in the report, it was the $4.2 million increase in operating income that stemmed from RioCan's growing residential footprint. That residential footprint is the sweet spot that will turn prospective investors into mortgage-free landlords.

Tomorrow's RioCan: Unlocked growth, return to profits

RioCan's residential footprint (or more specifically, mixed-use developments) are going to play a larger role in the company's future.

The initiative, known as "RioCan Living" aims to bring mixed-use residential and commercial properties to the market. The properties will be situated in major metro areas around the country, along transit lines near retail areas. By way of example, in Toronto RioCan has a site at Yonge & Eglinton, as well as at Yonge & Sheppard.

For prospective tenants, RioCan living provides a way to live within the city, closer to shopping and dining options. Because many of these sites are located on transit lines, prospective commute times are minimized as well.

As an investor, this screams of opportunity. Becoming a landlord, or better yet, a mortgage-free landlord is next to impossible for first-time buyers. Investing in RioCan can help investors meet that goal, and more importantly, generate income.

RioCan provides a monthly distribution that currently works out to an insane 9.31% yield. It's worth noting that RioCan's incredible yield is a direct result of the stock trading at a considerable discount. In 2020 RioCan has dropped over 40%, and has not kept up with the gains made by the market in recent weeks.

Be a mortgage-free landlord

Investing in RioCan is not without risk. RioCan's portfolio of brick-and-mortar retail customers comes to mind here. As a reminder, the retail sector was already grappling with a change in consumer shopping habits when the pandemic started.

Over the longer-term RioCan's prospects are much brighter. By moving into mixed-use residential developments, RioCan is adding an additional revenue stream that is immune from the change in consumer shopping habits.

This is where the opportunity for prospective investors lies. A well-diversified portfolio of properties that provide a handsome monthly income. Not ready for retirement? Adding RioCan to your TFSA and reinvesting those dividends will provide a growing tax-free nest egg.

Go on, buy RioCan and become a mortgage-free landlord.

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