Hate Realtor Fees? Buy a REIT Stock Instead!

Description

The COVID-19 pandemic didn't decimate the home-ownership spirit in Canada. While interest rates are at historic lows, home buyers are holding off purchases due to job uncertainty. It could be a wise move, because the housing bubble might burst and send prices crashing. Even those intending to buy investment properties are stalling.

However, beyond the market crash predictions, you must consider other costs related to home ownership. Your expense doesn't end with the purchase price. Before buying, factor in closing costs such as land transfer tax, mortgage fees, and home insurance, among others.

Closing costs include lawyer's fees, mortgage discharge, and realtor's commission on the seller side. Realtor's commission is the most oversized fee and could run from 5% to 6%. The closing fees are insanely high. For new landlords, add maintenance costs and vacancy risks.

If you have the budget but are unwilling to venture in a highly volatile environment, consider investing in a real estate investment trust (REIT). Your money can earn for you while you wait for the market to stabilize.

The market in the pandemic

Supply and demand are the fundamental drivers of real estate prices. When housing inventory is high and buyers are few, prices go down. When buyers are plenty, but houses for sale are limited, property prices rise. In the pandemic, buyers and sellers are adopting a wait-and-see attitude. Thus, the impact on prices is not yet profound.

Anticipate supply to surge when life is back to normal. However, demand might remain weak if Canadians are unable to afford to buy due to financial strain from COVID-19. If a high-inventory-level-with-low-demand scenario plays out, prices will decrease, and buyers will have more negotiating power.

The Canada Mortgage and Housing Corp. (CMHC) said the housing market is experiencing overvaluation in some parts of the country. The latest report from the federal housing agency shows more sellers than buyers are exiting the real estate market. The reasons are high economic uncertainty and temporary public health and workplace safety restrictions.

Dream investment

Dream Industrial (TSX:DIR.UN) is ideal for income investors. This $1.74 billion REIT owns and operates 262 high-quality industrial properties in key markets across North America. Its presence in European markets is likewise growing. The REIT stock is trading at $11.32 per share and offering a generous 6.16% dividend.

Unlike some retail and office REITs, industrial REITs are doing better in the COVID-19 world. Industrial properties are in high demand, because it services supply chain needs. For Dream, leasing momentum picked up significantly in Q2 2020. The rental spreads on the committed 95.6% occupancy are healthy.

In the six months ended June 30, 2020, net rental income was $82.12 million, or 22.8% higher than the same period in 2019. According to Dream's Chief Operating Officer Alexander Sannikov, the portfolio should continue to post healthy internal growth owing to a diversified tenant base, below-market rental rates, and annual rent escalators (approximately 2% average).

Sensible decision

Nearly 100% of Canadians dream of owning a home, although buying in coronavirus conditions is risky. In a COVID-induced recession, expect the purchasing power to be much lower due to high unemployment. Thus, investing in industrial REITs make a lot more sense.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:DIR.UN (Dream Industrial REIT)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Tags

1. Editor's Choice

Date
2025/08/16
Date Created
2020/10/05
Author
cliew