



Should You Buy a Home or Become a Passive Landlord in 2021?

Description

Buying a home is easily one of the most expensive investments you'll make in your life. But is it really worth investing in? Should you even view it as an investment?

Historically, home prices have gone up over the decades. In the past 25 years, new home prices in Canada have increased at a compound annual growth rate of about 3% per year.

That said, there's a difference in the change in the prices depending on the type of asset (house, townhouse, or condo) as well as the location. For instance, the housing prices have probably increased by a wider margin in Vancouver and Toronto versus other cities over the years.

Since the onset of the pandemic, there has been a greater demand for houses versus condos, as people sought to stay socially distanced and far away from crowds. Interestingly, this meant some people moved out of crowded cities for surrounding, smaller metropolitan areas.

Buying a home in 2021?

The pressure from getting a mortgage for a house will be much greater than for a condo. However, some people still choose owning a house with the intention of renting out a portion of the property to help repay the massive mortgage monthly. As long as the math works out, it could be a great way to build one's equity.

Regardless of whether you decide to buy a house, townhouse, or condo, aim for a downpayment of 20% or more so that you don't need to pay for the CMHC mortgage loan insurance, which is available for homes that are less than \$1 million.

According to a [2017 infographic](#) by CIHI, an independent, not-for-profit organization, the Canadian seniors' population that is +65 years old was expected to increase by 68%, while seniors +75 were expected to double over the next 20 years.

Many seniors have a big chunk of their nest egg stored in the equity of their homes. Many of these

seniors could downsize their houses to condos. This ongoing trend could push a greater supply of houses into the market over the next decades.

Whether young or immigrated families can absorb all this supply is another question. When supply is greater than demand, the price will fall. As a result, I think first and foremost, it's better to view one's property as a place to live in and enjoy before viewing it as an investment.

Paying down the mortgage is one big monthly expense. Townhouses and condos have rising strata fees and could have surprise fees if there are problems in the property and the reserve fund isn't sufficient to cover them. That's one thing to-be property owners need to keep in mind.

Become a passive landlord in 2021

[Becoming a passive landlord](#) in 2021 can be super easy and free of stress without the pressure from a massive mortgage. First, identify industries you want to invest in, such as industrial REITs, that should benefit from the ongoing trend in e-commerce.

Industrial REITs including **Granite REIT**, **Summit Industrial Income REIT**, and **Dream Industrial REIT** are defensive. They provide yields of about 4%, 4%, and 5.5%, respectively. According to analysts' 12-month price targets, Granite REIT offers the greatest value right now with near-term upside potential of roughly 13%.

Alternatively, you can find massive value in diversified REITs, such as **H&R REIT**, which owns a portfolio of office, retail, industrial, and residential assets. It offers a juicy yield of approximately 5.7% that's protected by a payout ratio of about 50%. Upside of more than 40% is possible on a partial recovery to pre-pandemic levels.

In other words, by investing in a basket of REITs, you'll have professional management teams to take care of the underlying properties, and pay you passive monthly income without you having to lift a finger!

The Foolish takeaway

Whether to buy a property to live in or not will depend on your personal needs and your investment style. If you wish to invest in real estate, it could be much lower risk to buy REITs selectively, which is a much more diversified investment than individual properties.

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kayng

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