How to Add Real Estate to Your TFSA

Description

Canada's real estate sector is notoriously impenetrable for most savers. It could take as long as 24 years for a household earning median income to save up for a deposit on a house in Toronto. In Vancouver, you may need to earn over $150,000 a year to afford most properties.

Meanwhile, investors and buyers who hopped in early are now sitting on ludicrous profits. The price of an average home in the nation has jumped by 6% or so every year for the past two decades. Combine that rate of return with record-low interest rates and generous mortgages, and you can see why so many veteran landlords are multi-millionaires now.

Luckily, you don't need a downpayment or mortgage approval to gain some exposure to this burgeoning sector. Some major landlords are publicly listed, which means you can buy their stock directly on the market. In fact, these stocks are both lucrative and eligible for your Tax-Free Savings Account (TFSA).

Here's what you need to know.

Real estate investment trusts

Real estate investment trusts (REITs) are special-purpose vehicles that buy and manage a portfolio of properties. Think of them as exchange-traded funds for real estate.

These entities are not taxed like regular corporations, so long as they deliver the majority of their cash flow back to shareholders in the form of dividends. That's why REITs are some of the most lucrative dividend stocks on the market.

When you buy a REIT, you get exposure to rental income from the basket of properties. You also get exposure to the upside in the equity and leverage. REIT landlords can borrow money very cheaply and can snap up properties for bargain prices. In other words, buying these stocks is like hiring a group of professionals to buy real estate for you.

Considering the buoyant state of Canadian real estate, adding a REIT to your TFSA could be a good idea for the next decade or more.

Top two REITs

Picking the right REIT is absolutely crucial if you're trying to build wealth through real estate. My top picks are **Summit Industrial Income REIT** (TSX:SMU.UN) and **NorthWest Health Properties REIT** (TSX:NWH.UN)

Summit owns and manages so-called light industrial properties. These are warehouses and distribution centres spread across the country. This sector is much better valued and more attractive than your typical residential real estate. For one, the surge in online shopping and deliveries creates ample demand for Summit's properties.

Another reason Summit is well positioned is the fact that warehouses and distribution centres are not overvalued like Canadian homes and condos. This means investors can mitigate the downside risks. Summit REIT trades at roughly 10.6 times earnings per share and offers a 3.9% dividend yield.

NorthWest is similarly robust. As the name suggests, this REIT is focused on healthcare properties. Its underlying portfolio consists of medical centres, hospitals, and clinics. Not only are these units overlooked and underpriced, but they're also recession-proof. NorthWest offers a 6.1% dividend yield.

Add real estate to your TFSA through these niche REITs.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:NWH.UN (NorthWest Healthcare Properties Real Estate Investment Trust)
2. TSX:SMU.UN (Summit Industrial Income REIT)

PARTNER-FEEDS

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

Category

1. Investing

Date
2025/09/26

Date Created
2021/02/11
Author
vraisinghani