REITs: The Easy Way to Collect Rental Income for Canadians

Description

Real estate is the favourite asset class of many desiring to build wealth. Borrow against the property at a low rate, then rent it out to collect rental income. You could use the rental payments to wash down the loan. Over time, you can liquidate the hard asset and cash in when the value appreciates.

However, not everyone wants to be a hands-on landlord. Headaches come with the territory, not to mention incidental costs such as maintenance and repairs to keep the property attractive to lessees. Vacancy is an ever-present threat too.

With the advent of real estate investment trusts (REITs), investors have found an alternative to direct real estate investing. Somehow, you can compare REITs to actual, tangible real estate. You make money as a pseudo-landlord. It could be the easiest way for Canadians to collect rental income without owning and managing physical properties.

REITs on the TSX

The majority of Canadian REITs are listed on the **Toronto Stock Exchange** (TSX). Its number has grown significantly since 2008 due to the low barriers to entry and tax incentives for entrants. Today, REITs are sector-driven investment vehicles. The landlords in the space own and develop properties for people to live, work, and play.

Liquidity for investors

A significant advantage of investing in REITs is liquidity. Unlike an actual property owner, you have an exit route if you need cash instantly. Sell your REIT shares and the transaction is done. No more hassle of property listing and marketing to prospective buyers before disposing of the underlying property.

However, REITs aren’t risk-free propositions because there’s an element of volatility. Share prices could trade at a premium or discount, depending on market sentiment. Similarly, there’s sector specialization within the broad real estate market.

Investors can choose specific sub-sectors they feel are safer passive income providers. Some REITs focus on commercial, retail, office, and residential properties. Others are in the industrial, healthcare, and hospitality or hotel sectors, while many are diversified and operating mixed-use properties.

Value and growth

Dream Industrial (TSX:DIR.UN) appeals to me the most because industrial real estate is the hottest sector in 2021 compared to commercial, retail, and office REITs. This $2.32 billion REIT benefits from e-commerce growth. I also see a value and growth combo.

If you invest in Dream Industrial today, the share price is $13.38, while the dividend yield is 5.23%. If you're chasing after $1,200 monthly rental income, purchase $200,000 worth of shares. The REIT's investment platform is global. It owns and operates a diversified portfolio of high-quality industrial real estate in Canada, Europe, and the United States.

Dream Industrial's main attraction is its stable and diverse asset mix. The real estate portfolio consists of big bay buildings, small to mid-bay properties, and light industrial properties. All the 177 assets are modern, functional, and well-located. Dream Industrial CEO Brian Pauls proudly boasts, "With a diverse portfolio across asset types, geography, and tenant base, we are well-positioned to capitalize on growing e-commerce demand."

Ideal for average investors

REITs make sense for average investors who can't afford to purchase real estate investment properties. Another positive if you become a mock landlord is that it requires less time and energy. Top REITs like Dream Industrial also offer higher-than-average dividends.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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

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cliew