



Earn \$351.60 Rental Income Monthly Without Owning a Property

Description

The global pandemic triggered a buying frenzy in the real estate sector. Instead of a recessionary crash, home prices in Canada keep rising. Homebuyers are taking advantage of historically low interest rates to scout for houses, not only in major cities but also in small towns.

Likewise, the shift to remote work prompted households to seek bigger spaces away from the epicentres of Toronto and Vancouver. Now, housing markets across the country seem to be out of control. If you're planning to buy real estate for investment purposes in 2021, hold that thought. The housing bubble could burst and send inflated prices crashing.

Investors, however, have an alternative to save on costs and work and be free of risks associated with owning an investment property. Also, you can [earn passive income](#) at the same time.

Real estate investment trusts (REITs) pay dividends that could replace the rental income you seek. Among the [generous dividend payers](#) in the sector is **True North Commercial** ([TSX:TNT.UN](#)). Would-be investors gain exposure to a portfolio of commercial properties with long-term leases.

Stress test in June

The federal government will attempt to cool down Canada's red-hot housing market. On June 1, 2021, the mortgage stress test took effect. While the test could reduce the buying power of some home buyers, the new rules should protect people in case interest rates increase.

According to Leah Zlatkin, a principal broker with Brite Mortgage, the new rules will prevent home buyers from accumulating too much mortgage debt. She added, "The purpose of the stress test is to make sure people can afford things if interest rates go up." Thus, qualifying for a mortgage is more difficult with the stress test.

For Mike Moffatt, Smart Prosperity Institute's senior director, there could still be pressure on prices when the border reopens new demand from immigration. However, he's not discounting the possibility of a correction, as prices have gone up so high.

Pure dividend play

True North is a pure dividend play. At \$7.62 per share, this real estate stock pays a super-high 7.91% dividend. Suppose you can afford to purchase 7,000 worth of shares (\$53,340). Your investment can generate \$4,219.19 in passive income, or \$351.60 per month, effectively.

The \$665.22 million REIT isn't the biggest, with only 45 commercial properties in the portfolio. However, the tenant base is the main attraction. The federal government of Canada is the anchor tenant in 12 properties (27%). Other high-profile tenants include the provincial governments of British Columbia, New Brunswick, Ontario, and Alberta Health Services.

Among the lessees from the private sector are **Toronto Dominion Bank, National Bank of Canada,** and Stantec. In Q1 2021 (quarter ended March 31, 2021), True North reported positive operating results. Notably, it had strong contractual rent collection of 99.5% (industry-leading) and a stable occupancy rate of 97%. The average remaining lease term is 4.7 years.

Vulnerabilities

Unless the bidding wars stop, the housing market is standing on shaky ground. Bank of Canada governor Tiff Macklem said, "The biggest domestic vulnerabilities are those linked to imbalances in the housing market and high household indebtedness. It's not new, but they have intensified."

Macklem worries about the serious damage to overstretched borrowers and the entire economy. Thus, investors should defer buying real estate until the market stabilizes.

CATEGORY

1. Dividend Stocks
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TICKERS GLOBAL

1. TSX:TNT.UN (True North Commercial Real Estate Investment Trust)

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