



Warren Buffett: Why He Chooses REITs Over Buying Property

Description

The real estate industry has allowed many investors to become millionaires — even those who don't own any physical real estate. Not everyone is built to become a landlord and manage investment properties to generate wealth. However, it is still possible to earn rental-like monthly income without directly investing in real estate, thanks to real estate investment trusts (REITs).

REITs are widely considered to be a [viable alternative to investment properties](#) for investors who want to create wealth by capitalizing on the real estate sector without all the hassles that come with owning, developing, and managing a portfolio of investment properties yourself. You might be surprised to learn that [Warren Buffett](#) himself rarely ever invests in real estate — at least not directly.

Considering the substantial wealth Buffett has, he could build a portfolio of rental properties. But Berkshire Hathaway's annual reports indicate that his focus is on REITs like **Store Capital**, **General Growth Properties**, **Tanger Outlets**, and several others.

If you are a Canadian investor who wants to generate wealth through real estate, learning about some of the reasons Buffett chooses REITs over buying properties might help you make a more well-informed investment decision about it.

Understand your limits

Warren Buffett never invests in anything he isn't sure about. The Oracle of Omaha has focused on investing in businesses operating in industries that he can understand and has a competitive edge. He admits that his conglomerate cannot compete with experts in the real estate space. Buffett advises people to be realistic about what their limitations are. Unless you can fully dedicate your time and effort to managing investment properties, REITs would be a far better way to earn income from the sector than buying real estate.

Frothy market conditions

It is no secret that the housing market has been soaring. Some might argue that it is flying too close to the sun, even though the red-hot market conditions don't necessarily reflect REITs' performance. With housing prices too high, it is only a matter of time until the bubble bursts and prices go down. You are likelier to find better deals in the stock market that offer you more liquid assets than in real estate.

Smaller cash outlay and no hassle

REITs offer you the opportunity to generate rental-like income without the hassle of managing properties. Additionally, there is a much smaller cash outlay for investing in REITs. Managing investment properties requires complete dedication, as you deal with several obstacles. Owning a REIT means that you can enjoy all the benefits of being a landlord without the hassles that come with it.

A top REIT to consider

RioCan REIT ([TSX:REI.UN](#)) is a top Canadian REIT that suffered significant losses during the pandemic's first year. Investors did not expect the global health crisis to force the REIT's management to slash distributions. However, RioCan REIT's management had to cut the distribution to maintain a strong balance sheet to weather the storm.

2020 saw RioCan REIT decline by over 30%. RioCan REIT is trading for \$22.50 per share at writing, reflecting a massive 37% year-to-date gain on the stock market. Rent collections suffered, as the active transaction market was fewer during 2020.

However, the company's management is confident about making a strong recovery from the pandemic's devastating effects. The company's move to mixed-use properties from solely focusing on retail properties is proving to be a clever tactic, allowing RioCan to begin recovering. It could be a viable asset to consider adding to your portfolio.

Foolish takeaway

Warren Buffett is a value investor with an innate ability to find [high-quality assets at discounted prices](#). He acquires them at a bargain and holds onto them for the long run, amassing substantial wealth in the process. He has done that for decades, and you could use that strategy to your advantage.

RioCan REIT and other REITs are trading for discounted valuations right now. Buying shares of the REIT is a more accessible way to generate rental-like income for decades to come without contending with the hassles of being a landlord.

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