Buy REIT Stocks and Make Big Bucks in Real Estate

Description

Real estate investing can be really simple. You don't need a whole lot of money to start either. No, you don't need to get a mortgage to buy a condo or building. You can invest in real estate in a diversified way from day one. With commission-free trading on Wealthsimple, you can invest as little as one unit of real estate investment trust (REIT) stock each time.

REITs are managed by professional teams that take care of mortgages, tenants, properties, insurance, and property taxes. Moreover, they own a portfolio of properties and potentially land for development, which offers a lower risk than buying a single property.

Here are a few tips to help you make big bucks with REIT stocks.

Choose the asset type

You can invest in residential, industrial, office, retail, healthcare, data centre, self storage, and cell tower REITs. Investors would be glad if they weren't invested in retail or office real estate, which experienced huge drawdowns in their fair asset values during the pandemic.

There are also diversified REITs that could have retail, office, residential, and industrial properties in their real estate portfolios. However, buying them won't be the best move if you're only bullish in certain areas.

By buying individual REITs, you can choose to invest in residential and healthcare REITs that are more defensive and industrial, data centres, self-storage, and cell tower REITs that could provide greater growth.

For residential REIT exposure, you can consider **Canadian Apartment Properties REIT** (TSX:CAR.UN). Consider **NorthWest Healthcare Properties REIT** (TSX:NWH.UN) as your healthcare REIT exposure. **Granite REIT** (TSX:GRT.UN) is a good idea if you like industrial REITs. To gain exposure to data centres, self-storage, and cell tower REITs, you should explore ideas on the NYSE.

Valuation is key

If you want to secure great returns from your REIT stocks, it's the same as other stock investing. You want to buy when the REIT stocks are trading cheaply. Unfortunately, the real estate sector is pretty fully valued right now.

There will be opportunities to make big bucks. For example, during the pandemic, investors could have picked up Canadian Apartment Properties REIT units for about $40 per unit with a yield of about 3.4%. Your position would be up more than 50%.

Similarly, you could have locked in a yield of 11.4% from NorthWest Healthcare Properties REIT at $7 a unit. The healthcare REIT stock appreciated 85% from that level. From Granite REIT, you could have gotten a yield of 6.2% at about $47 per unit and the shares would have appreciated about 82%.

Buy REIT stocks in TFSAs

When you do buy Canadian REITs, consider the investments in your Tax-Free Savings Account (TFSA). Canadian REITs tend to pay out monthly cash distributions, which is perfect for those seeking monthly income.

REITs pay out cash distributions that are like dividends but are taxed differently. In non-registered accounts, the return of the capital portion of the distribution reduces the cost basis. The return of capital is tax-deferred until unitholders sell or their adjusted cost basis turns negative.

REIT distributions can also contain other income, capital gains, and foreign non-business income. Other income and foreign non-business income are taxed at your marginal tax rate, while capital gains are taxed at half your marginal tax rate.

If you hold REITs inside a Tax-Free Savings Account (TFSA), your REIT income will be tax-free except for the withholding tax on foreign income. If there's foreign income, it'll often be a small negligible amount.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CAR.UN (Canadian Apartment Properties Real Estate Investment Trust)
2. TSX:GRT.UN (Granite Real Estate Investment Trust)
3. TSX:NWH.UN (NorthWest Healthcare Properties Real Estate Investment Trust)

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