Stocks or Real Estate? Why More Canadians Are Picking Stocks

Description

The year isn't over, but home sales in Canada have reached a new record level as of October 2021. According to data from the Canadian Real Estate Association (CREA), the 8.6% surge from September to October was the most significant month-over-month increase since July 2020.

Interestingly, and despite the red-hot housing markets, Statistics Canada reports that real estate investment is declining. Canadians are pulling back and pumping money into stocks, particularly U.S. equities. The volume of transactions in September 2021 was 33% more than in the same month in 2020.

The preference for stocks is perhaps due to the risk and cost of owning rental or investment properties. Moreover, if you invest today, you'd be buying at inflated prices as speculators also drive prices higher. Thus, stock investing is more attractive and less cumbersome. It requires minimal monitoring, unless you're after short-term gains.

Pros and cons of real estate investment

Most Canadians derive tax shelter by owning real estate, provided the home is the principal residence. Capital gains tax applies on homes bought for investment purposes. Besides the higher cash outlay, you'll need to consider maintenance and related costs.

Finding credit-worthy tenants and maintaining zero vacancies could be a challenge. There are incidental costs like broker's commission, lawyer fees, and others if you need to sell for liquidity. But if you still prefer to have exposure to the real estate sector, real estate investment trusts (REITs) are your best alternatives.

Alternatives to ownership

Summit Industrial (TSX:SMU.UN) has a market cap of $4 billion and owns a portfolio of highly marketable light industrial properties. Tenants can set up shop in the leased properties whether for storage, warehousing, or light industrial assembly plants, among others.

The REIT an excellent medium- to long-term hold because of the strength and stability of the industrial sector. The particular asset class has lower market rent volatility. Also, Summit enjoys lower operating costs and spends less on capex. The share price is $22.87, while the dividend yield is 2.43%.

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True North Commercial (TSX:TNT.UN) is a reliable income provider minus the headaches of an actual landlord. The real estate portfolio of this $640.75 million REIT consists of 46 commercial properties. Because the long-term leases are with government agencies, including the federal government and credit-rated tenants, True North enjoys a high occupancy rate of 95.6%.

Furthermore, True North is a cash cow that pays an over-the-top 8.16% dividend. Thus, you get value for money for only $7.22 per share.

Avoid tax on foreign investments

Canadian investors should consider the tax consequences when investing in foreign stocks. Earnings or dividends are tax-free provided the assets are in a Registered Retirement Savings Plan (RRSP). However, if you want to pay zero taxes, purchase a Canadian stock and hold it in your Tax-Free Savings Account (TFSA).

Pembina Pipeline (TSX:PPL)(NYSE:PBA) is an eligible investment in a TFSA. Besides the high yield (6.54%), the $21.21 billion transportation and midstream services provider pays monthly dividends. Your TFSA balance compounds faster, because you can reinvest dividends 12 times a year, not the typical four.

Before making the choice

Weigh the advantages and understand the risks when choosing between real estate and stocks. More importantly, consider the costs and tax implications before investing in either asset.

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3. TSX:SMU.UN (Summit Industrial Income REIT)
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