



Invest Smart Like the GOAT: 4 Drawbacks of Buying Rental Properties

Description

People refer to Warren Buffett as the [GOAT of investing](#), because of his extensive experience and investment savvy. However, if you look at his portfolio, property holdings are practically zero. In the real estate sector, he would rather invest in real estate investment trusts (REITs) than purchase rental properties.

In Canada, the housing market turned red hot during the pandemic. Due to pent-up demand, low interest rates, and limited supply plus speculations, prices have gone sky-high. An affordability crisis also exists today for homebuyers or end users. Real estate investors should think twice before buying investment properties at inflated prices.

Buffett avoids real estate properties for investment purposes because it has drawbacks. If you know them, you'll see the advantages of investing in REITs like **Nexus** ([TSX:NXR.UN](#)) and **Slate Grocery** ([TSX:SGR.U](#)). Both real estate stocks can provide [rental-like income](#) without the hassles of a real landlord.

1. Lack of competence

Buffett and his lieutenants at **Berkshire Hathaway** invest only when they have or see a competitive advantage. Owning physical properties to collect rents from tenants isn't as easy as it seems. If you're not a professional real estate investor, being in property management is a big problem.

2. Extensive research

Extensive research precedes a purchase of rental properties. Since Buffett is a value investor, he won't spend on [overvalued assets](#). Aside from choosing the right location, an investor must know landlord-tenant laws and occupancy levels and be able to forecast rent growth.

3. Large investment plus other costs

Purchase price is not the only consideration when buying rental properties. Besides obtaining a mortgage, you must factor in present and future costs such as maintenance, insurance, and other expenses. Take into account tenant issues and potential vacancy. Also, direct ownership requires time and energy.

4. Liquidity risk

REITs trade like regular stocks, so you can buy and sell them as you please. While the value of real estate appreciates over time, it may take longer to complete a sale if you need to raise cash. You might end up selling at a quick-sale value or below fair market value.

Resilient REITs

Nexus is among the top-performing REITs. The real estate stock started trading on the TSX in early February 2021 and has rewarded investors with a 59.4% total return in 10 months. At \$12.33 per share, the dividend yield is a lucrative 5.15%.

This \$949.47 million growth-oriented REIT focuses on multi-use industrial properties. The industrial sub-sector is the hottest in the real industry because of the e-commerce boom. Nexus's occupancy rate should be consistently for years to come. Management's immediate goal is to grow its industrial portfolio further and become a pure-play industrial REIT.

Slate Grocery is a defensive asset because of its low-risk business model. This \$922.7 million REIT owns and operates a portfolio of grocery-anchored properties in the United States. Prospective investors gain exposure to the resilient grocery market and be mock landlords to quality tenants like **Kroger** and **Walmart**.

The real estate stock outperforms the TSX year to date, +9.3% versus -0.45%. At \$15.58 per share, the trailing one-year price return is 42.15%. If you invest today, Slate Grocery pays a generous 5.57% dividend.

Steady income

Canada's housing market should cool down once the rate hikes begin. However, don't expect prices and speculative demand to drop instantly. Invest in REITs for now to receive steady income streams.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:NXR.UN (Nexus Real Estate Investment Trust)
2. TSX:SGR.U (Slate Retail REIT)

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