Young Canadians: 1 Way You Can Afford to Buy Real Estate

Description

In the current market environment, investing in real estate has become a challenging proposition for younger Canadians. Housing prices are soaring to new all-time highs, with no signs of the market slowing down. Rising living costs, interest rate hikes, and global uncertainty due to war are not making matters any better.

Canadians today do not have the buying power to outright purchase investment properties through mortgages. Getting a loan to make the down payment on a property as interest rates rise might not be the most financially savvy approach due to the long-term burden it can place on your finances.

Owning investment properties and renting them out to generate monthly returns is a massive undertaking. It requires a substantial upfront investment and contending with hassles and various expenses for a long time before you can break even. But there might be a better way for you to afford real estate as an investment without the cash outlay: real estate investment trusts (REITs).

Investing in REITs to own real estate

REITs are companies that invest in a portfolio of properties in the form of a trust. Investing in units of a REIT means that you own a share of that portfolio and are entitled to receive regular distributions from that investment.

Investing in REITs is like dividend investing in that it can be a viable passive-income stream. It is also like owning investment property, but as a lazy landlord. The REIT is responsible for managing its properties and collecting the rent. You just get the returns from the money you invested, just like with a dividend-paying stock. You can invest in REITs through the stock market, just like with other equity securities.

Canadian Apartment Properties REIT

Canadian Apartment Properties REIT (TSX:CAR.UN) is a $9.53 billion market capitalization REIT and one of Canada's largest and most liquid REITs. The company boasts a massive portfolio comprising over 65,000 manufactured home community (MHC) sites and apartment suites throughout Canada and Europe. It has a diversified portfolio that can generate significant cash flows.

CAPREIT trades for $54.93 per unit at writing, and it boasts a 2.59% trailing 12-month dividend yield. The REIT offers its dividend payouts each month due to the REIT business structure. It means that investing in its units could provide you with monthly rental income without the hassles of managing an investment property yourself.

CAPREIT's portfolio has an occupancy rate of over 98% in its apartment properties and 95% in its MHC sites. Its management team is constantly searching for opportunities to expand its portfolio, potentially making it a viable long-term investment for significant wealth growth.

Foolish takeaway

The real estate industry might be too expensive for many young Canadian investors to buy their first homes. If you are interested in buying a house, it might be better to get pre-approval and secure a mortgage for the down payment, while the interest rates are at current levels. The Bank of Canada is on track to implement further interest rate hikes in the coming months.

But if you want to dip your toes in the real estate industry to buy investment properties, allocating some of your investment capital to a REIT like CAPREIT might be a better way to go.

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1. Dividend Stocks
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1. TSX:CAR.UN (Canadian Apartment Properties Real Estate Investment Trust)

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