REIT Stocks vs. Rental Properties: Which Is Better?

Description

Stocks in real estate investment trusts (REIT) are great alternatives to owning income properties. Yet many people have never heard of REITs. They are an easy way to earn reliable monthly passive income. REITs generate stable, contracted streams of cash flow. As a result, they can pay elevated monthly distributions to shareholders.

Why I prefer REIT stocks over rental properties

There are several reasons retail investors may want to own REITs over a rental or commercial property. Firstly, REIT stocks are liquid. You can trade them easily on the stock market at any time. I recommend finding high-quality stocks and owning them for many years. However, if you need cash quickly, it is simple as pressing “sell” in your brokerage account.

It isn’t so with a rental property. There are commission fees, taxes, and due-diligence costs to buy and sell. It can be costly and timely to buy a rental property.

No management required

Secondly, there is no management required to own a REIT stock — no waking up in the middle of the night to fix a pipe, no eviction notices, and no stressful lease negotiations. REITs employ very experienced management teams. They can often source properties, financing, and tenants that would be difficult to acquire as an individual investor.

Quality, diversified assets

Thirdly, if you are going to own real estate, why not just own the best? Real estate stocks often own properties that are geographically diversified, well located, and of a high-quality. These propertiesenjoy elevated rental rate growth. This also means property values are likely to increase faster. If youown a rental property, you are at the mercy of your individual market.

Cheap valuations

Lastly, often you can buy publicly traded REITs at a discount to their asset valuations in the private market. Sometimes Canadian REITs with international exposure do not get fairly valued on the public market, so you can pick them up at a large discount to private market transactions.

Be a passive landlord: Granite REIT stock

If you are considering buying a REIT stock today, one I would consider is **Granite REIT** (TSX:GRT.UN). It operates a portfolio of institutional quality logistics and industrial properties in Canada, the United States, and Europe.

It has a high-quality tenant mix, including **Magna**, **Amazon.com**, True Value, and **Restoration Hardware**. These operate on secure, long-term leases. In many instances, the leases are inflation-hedged with annual indexed rent increases.

Granite has been enjoying very strong rental rate growth since the pandemic. In 2022, it is expecting +10% adjusted funds from operations (AFFO) per share (a key cash flow metric) growth.

It has a great development pipeline that could help boost returns even beyond that marker. Granite has a market-leading debt profile (net leverage ratio of only 25%) and an average cost of debt of only 1.8%. Considering this, the effects of rising interest rates are limited.

A sweet dividend as a topper

Granite pays a $0.2583 distribution every month. At $94 per unit, that equals a 3.3% distribution yield. It has raised its dividend every year for the past 10 years.

This REIT trades at an attractive approximate 2% discount to its net asset value (NAV). Most peers trade at a near 20% NAV premium, so that leaves ample upside for this stock to bounce upward. Considering Granite's quality assets, great tenant mix, consistent dividend growth, and strong management platform, this is a top REIT stock to buy, hold, and never sell.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:GRT.UN (Granite Real Estate Investment Trust)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. kduncombe
2. robbybrown

Category

1. Dividend Stocks
2. Investing

Date
2025/08/23
Date Created
2022/04/09
Author
robbybrown