Can’t Afford a House? You Can Still Invest in Real Estate!

Description

Housing affordability is one of the biggest issues facing Canadians today. House prices are at all-time highs and show no signs of cooling down. In February, the price of an average Canadian home rose 20% year over year, hitting a whopping $816,000. At this point, the *average* Canadian house is approaching prices previously only seen in Toronto and Vancouver!

In this environment, few can afford to buy homes. Two-income couples are feeling the strain; single individuals, even more so. If you are feeling shut out of the housing market, there is little to do except wait. If you want to *invest* in real estate, you may have other options. Buying a house has become difficult for the average Canadian, but investing in real estate is still very easy. By buying real estate on the stock market, you can get started without taking out a mortgage — in fact, you can get started with as little as $15!

In this article, I will explore how to get your real estate exposure on the stock market without having to borrow a huge amount of money.

REITs

REITs are pooled investment vehicles that trade on the stock market. They invest in diversified property portfolios. Legally speaking, they are more similar to exchange-traded funds (ETFs) than stocks, but in practical terms, they are real estate companies. One unique feature about REITs is that they pass on a high percentage of earnings as dividends. This makes them attractive as income investments, although it does slow down growth a little.

Why REITs have such high yields

REITs are required by law to pass on a high percentage of their earnings as dividends. To qualify as a REIT, a company needs to hold mostly real estate assets and pass 90% of income to shareholders. This feature results in REITs generally having very high yields.

Northwest Healthcare Properties REIT (TSX:NWH.UN) is a perfect case in point. With a 5.79% dividend yield, it pays far more income per dollar invested than the average TSX stock does. The dividends are paid monthly rather than quarterly. As is typical with REITs, the payout ratio is fairly high: NWH pays out $0.80 in dividends on $0.87 in adjusted funds from operations. That's an AFFO payout ratio of 92%. That might seem high, but remember that REITs exist primarily to pass income on to shareholders. If you are seeking a high yield instead of growth, then a REIT may be just what you're looking for.

Foolish takeaway

It's not easy to buy a home in Canada. With rising prices *and* rising interest rates, times are tough. As far as the practical side of home ownership goes, there are few alternatives apart from renting or moving to a cheaper city. The investment side of the equation is much more promising. There are plenty of Canadian REITs to invest in, and many of them offer truckloads of income. Potentially, investing in one could be a great way to get exposure to Canada's hot real estate market.

Just remember that all stock market investments carry significant risk of loss, and you should speak with a financial adviser before making one.

CATEGORY

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