Forget a Rental Property: Here's 1 Top Dividend Stock I'd Rather Buy

Description

Given the current real estate market, quality dividend stocks may be a better investment opportunity than a private rental property. If you want to earn sleep-easy, reliable streams of passive income, there are some great opportunities in stocks. Here is why I'd forget a rental property and buy dividend stocks instead.

Rising interest rates could affect private property values

Firstly, as interest rates rapidly rise in Canada, valuations for houses and rental properties could decline. That is especially true for overly valued condo markets in places like Vancouver and Toronto. Canada's real estate market has mushroomed out of control in the past few years. A further rise in interest rates could quickly pop that bubble.

Rental properties are not easy to manage

Secondly, owning a rental property requires time, expertise, and a bit of grit. Tenants don't treat a rental property like you would if you lived in it. Consequently, there is always factors like repairs, leasing, and tracking that rent is paid on time. Many rental property investors don't factor in the "time factor," making the investment less profitable than initially thought.

Better yields and valuations in dividend stocks

Lastly, many dividend stocks, especially those with a focus on real estate, are trading cheaper than their value in the private market. Many real estate stocks have recently pulled back and they are paying elevated dividend yields.

With a real estate investment trust (REIT), you get a professional management team, world-class assets, consistent monthly dividends, a strong value proposition, and a cost of debt/financing that is generally far below what an individual investor could attain.

Add all these factors together, and investing in dividend-paying real estate stocks is a superior way to earn regular returns for less work and lower risk. Here is one top real estate stock I would buy over a rental property any day.

Dream Industrial REIT: A top dividend stock to buy today

Dream Industrial REIT (TSX:DIR.UN) is one of Canada's largest industrial property owners. It has over 350 buildings across Canada, the United States, and Europe. These are high-grade distribution and urban logistics properties that are positioned in highly attractive locations.

Industrial property demand has been insatiable over the past several years. Trends such as e-commerce and on-shore manufacturing are causing tenants to rapidly demand more space. This has enabled very strong +20% rental rate growth in many of Dream's core regions. This could translate into robust +10% funds from operation per unit growth (a core REIT profitability measure).

Dream has a very low amount of debt (a net debt-to-asset ratio of only 26%). Its average interest cost today is only 0.85%! Try and find that interest rate anywhere in Canada today, and it would be impossible. Given its strong balance sheet, this business should be economically resilient if we enter a recession.

Likewise, today, this dividend stock is incredibly cheap. It trades at a 10% discount to its net asset value. That means, it could potentially sell its entire portfolio in the private market at a 10% premium to where the stock is being valued today. That doesn't factor its strong management platform, either.

The Foolish takeaway

Dream Industrial stock pays an attractive 5% dividend yield today. With this stock, investors earn a $0.05833 distribution every single month. Combine its dividend, its value proposition, and its attractive growth profile, and this is a top stock I'd buy over a rental property any day.

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