The Cheapest Way to Invest in Canadian Real Estate

Description

Do you want to invest in Canadian real estate?

If so, I have some good news and some bad news for you.

The bad news is that Canadian housing is still extremely expensive. Despite prices coming down in March and April, the average Canadian house is still about twice as expensive U.S. house (1.5 times in PPP terms). So, buying a home remains a tall order for the average Canadian.

The good news is that you don't need to buy a house in order to get started in real estate. There are many other vehicles that let you bet on the housing market, including bank stocks, fractional home equity, and more. In this article, I will explore the easiest real estate investment you can make — one you can potentially get started with today!

Real estate investment trusts (REITs)

REITs are diversified real estate companies that trade on the stock market. Legally speaking, they are similar to mutual funds, but for practical purposes, you can think of them as stocks. They hold diversified portfolios of real estate (e.g., apartment buildings, office buildings) and are legally required to pass on 90% of their earnings to shareholders. The requirement to pay a lot of dividends tends to produce high yields; on the flipside, it means that REITs have to borrow heavily in order to grow.

Canadian REIT performance

What kinds of returns can you expect from REITs? The matter is more complicated than it seems.

If you're talking about pure price returns, then REITs are underperformers. **iShares S&P/TSX Capped REIT Index ETF** (TSX:XRE) is up a mere 36% since 2006, while the S&P 500 is up 200% in the same period. That's some serious underperformance right there. However, we need to factor in dividends.

XRE has a 3.3% dividend yield, which is higher than the TSX and almost three times higher than the S&P 500. So, if you look at total returns with dividends re-invested, then the REITs' performance improves considerably.

Additionally, you can find individual REITs with much higher yields than XRE. If you're willing to get adventurous with your REIT selection, you can find yields well north of 6%.

In the next section, I will explore two REITs that pay out truly fat yields.

Some REITs to check out

If you're looking to get started with real estate investing, one REIT you could consider is **Northwest Healthcare Properties REIT** (TSX:NWH.UN). It sports a 6.17% yield and is much safer than your average REIT. In 2020, when retail REITs collapsed, NWH.UN only suffered a moderate drawdown. Because it leases out healthcare space, which is paid for by tenants with government funding, NWH enjoyed very high collection rates all through the pandemic. At the same time that retail REITs faced a wave of delinquencies, NWH.UN had about a 97.5% collection rate. That's a REIT you can count on.

Next up, we have **Killam Apartment Properties REIT** (TSX:KMP.UN). This is a REIT that leases out apartments, mainly on the east coast. It has a 3.7% yield, which is much lower than NWH, but it is a more direct housing market play. Northwest Healthcare is an office REIT, and KMP is a residential REIT. So, an investment in KMP is a better proxy for housing than NWH is.

CATEGORY

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TICKERS GLOBAL

1. TSX:KMP.UN (Killam Apartment REIT)
2. TSX:NWH.UN (NorthWest Healthcare Properties Real Estate Investment Trust)
3. TSX:XRE (iShares S&P/TSX Capped REIT Index ETF)

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