



Real Estate Investing: Rental Property vs. REIT Investing — Which Is Better?

Description

In real estate investing, there's always a hot debate between rental properties and real estate investment trusts ([REITs](#)). Surely, both investments have pros and cons. Here are some key differences between the two.

Investing in a rental property

Most investors of rental properties get a loan in the form of a mortgage, so that they can pay back the amount over time. As long as you're eligible for a good-sized mortgage, you don't have to come up with a huge amount of money to invest in a property. This works well if you can secure a stable tenant and get rental income every month without delays. In the long run, you also expect the property value to rise, which works beautifully since you used leverage to buy the property initially.

The location of the property is key. Although it's ideal to invest in high-population cities like Toronto and Vancouver, these rental property investments are also on the expensive end versus the country's average. If the rental income isn't enough to cover the mortgage and other fees (insurance, property tax, and potentially strata/condo fees, etc.), then you'll need to cover it with your own money each month. The property should also provide convenience — easy access to groceries shopping, restaurants, schools, transportation, etc.

Rental properties also need attention from landlords. Periodically, maintenance is required or tenants need to be replaced. Oh, and if there is a big problem with the property for whatever reason, you'll likely need to pay out of pocket. Condos have a contingency reserve fund for those uncommon major renovations or repairs. However, if the amount is not enough, landlords will need to pay from their pockets.

Passive REIT investing is another option

If you only care about getting that stable rental income every month, you can invest in REITs that pay out safe cash distributions. To increase your chance of getting price gains, you will need to be choosy

about your buy and sell points in quality REITs. Moreover, investments in REITs can be as small as you want such that no leverage is needed.

Professional management teams at REITs take care of acquisitions and dispositions of properties and the work that's required of landlords (management of mortgages and tenants, insurance payments, etc.)

REITs provide immediate diversification because their portfolio consists of many properties. You can also easily diversify by asset type through investing in different REIT industries. For example, you can build a passive REIT portfolio that consists of residential, industrial, and retail REITs.

CFA Paul Gardner just recommended **Nexus Industrial REIT** ([TSX:NXR.UN](#)) as one of his top stock picks on *BNN*.

“Nexus is a small cap with a market cap of about \$1 billion. However, it has very good assets. And it's restructured to become a pure-play industrial, which is the sweet spot right now. It trades at about a 10% discount to its net asset value. It got hit because of liquidity issues — not because of fundamentals.”

Paul Gardner, partner and portfolio manager at Avenue Investment Management

The stock popped 4.5% yesterday on the backdrop of this positive recommendation. Nexus now yields about 5.4%.

The fact is, investors don't have to choose one over the other. Why not invest in rental properties *and* REITs if your finances allow it? For example, you could have a rental property and then invest in industrial, data centre, and self-storage REITs.

Rising interest rates could cool down the enthusiasm for real estate investing over the next 12-24 months. This gives some time for investors to do their research before deciding what to invest in.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:NXR.UN (Nexus Real Estate Investment Trust)

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1. Business Insider
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Author

kayng

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