Want to Be a Landlord? Try This Out 1st

Description

Have you ever wanted to be a landlord?

In this environment, it seems like a good gig. House prices are coming down, while rents are going up or staying the same. So, you can get good yields on rental properties today. However, landlords also face a number of costs, including the following:

- Interest payments (which are rising this year)
- Property taxes
- Repairs
- Costs associated with marketing rental properties

If you have a $2,000 mortgage payment, and you bring in $2,500 per month in rent, you're probably losing money after property taxes. However, if you hold stocks in a tax-sheltered account, every penny of your return is tax free. In this article, I will explore one type of "stock" that can serve as a good alternative to investing in rental properties.

Real estate investment trusts (REITs)

REITs are pooled investment vehicles that invest in properties. Legally speaking, they're similar to ETFs, but they're more like stocks in the sense that they're companies. REITs rent out all kinds of properties, ranging from apartment buildings to office buildings to farmland. In many cases, REITs are quite niche, giving you very specific exposure to one segment of the real estate market.

Consider **Northwest Healthcare Properties REIT** (TSX:NWH.UN), for example. It's a healthcare REIT that leases office space to health organizations. Its tenants include medical clinics and healthcare administrative organizations. Healthcare in Canada and Europe is largely government funded, giving NWH.UN's Canadian and European clients unparalleled ability to pay. NWH is also branching out into the U.S., where healthcare is financed by insurance companies. That's not quite as stable as government revenue, but it's better than relying on private citizens to pay their bills in a recession.

Why REITs are easier than being a landlord

Investing in REITs is easier than being a landlord for a number of reasons.

First, you don't need to borrow money to invest in REITs. They trade on the stock market and can usually be bought for between $10 and $50.

Second, they don't involve manual labour. In most rental agreements, the landlord is on the hook for repairs and maintenance. With REITs, that's on the property managers.

Third and finally, REITs have tax advantages. You can easily put a REIT into a Tax-Free Savings Account (TFSA) and never pay any taxes on it. Good luck trying to do that with a house.

What all this adds up to is a strong case for buying REITs instead of rental properties. Sure, there's an ego kick that comes from calling yourself a landlord, but the benefits of rental properties just about end there. People who invest in rental properties rarely get great returns. REITs, however, often yield 5% or more, and the dividends can rise over time. NWH.UN has a 6% yield at today's prices, and if its profits grow in the future, it might raise its dividends. Sure, landlords can raise rent too, but that's an uncomfortable conversation to have with a tenant. You might as well just let a REIT handle it for you.

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