# Get $1,000 of Monthly Rental Income From Dream Office REIT

## Description

Some investors buy properties and rent them out to receive rental income. Those properties require a huge amount of capital up front. By investing in real estate investment trusts (REITs) instead, investors can invest a small amount and still receive a juicy monthly income. Additionally, a professional management team takes care of the properties and the tenants, so you don't have to.

Further, by buying REITs, you diversify your portfolio immediately because REITs typically own and operate hundreds of properties.



**How to receive $1,000 in monthly income**

Buying 5,358 units of **Dream Office REIT** (TSX:D.UN) at $25 per unit would cost a total of $133,950, and you'd receive $1,000 per month, a yield very close to 9%.

Most of us probably don't have over $100,000 lying around. No problem. You could buy 2,679 units at $25, costing a total of $66,975, and you'd receive $500 per month, and still get a 9% income from your investment.

Okay, $67,000 is still too much for me. So, you could buy 536 units at $25 per unit, costing $13,400, and you'd receive $100 per month.

Do you see what I'm getting at? You'd receive that 9% annual income no matter how much you invest. And that investment amount is up to you.

**Is Dream Office REIT's income safe?**

For almost 12 years Dream Office REIT has never cut its distribution. It even raised it by 2% in 2013. So, the REIT went through the credit crisis without cutting its yield. In other words, you can count on Dream Office's 9% income.

For investors who don't need the income today, they can reinvest the distributions with a 4% discount. I can easily turn the dividend reinvestment plan on or off with the click of a button on my bank's website.

**Tax on the income**

If you're buying REIT units in a TFSA or RRSP, you do not need to worry about the rest of this section. However, if you want to learn about a REIT's tax-advantaged nature, read on.

REITs pay out distributions that are unlike dividends. Distributions can consist of other income, capital gains, foreign non-business income, and return of capital. Other income and foreign non-business income are taxed at your marginal tax rate, while capital gains are taxed at half your marginal tax rate.

On the other hand, the return of capital portion reduces your adjusted cost basis. This means that that portion is tax-deferred until you sell your units, or until your adjusted cost basis turns negative. So, if you buy REIT units in a non-registered account, you'll need to track the change in the adjusted cost basis. The T3 that you'll receive will help you figure out the new adjusted cost basis.

In recent history, a large portion of Dream Office REIT's distribution was return of capital. In 2013 it was 53.7% of the distribution, and in 2014 it was 72.5%. So, if you received $12,000 of annual income from them, $6,444 was tax-deferred in the first year, while $8,700 was tax-deferred in the second year. So, if Dream Office keeps this up, it's actually more advantageous to hold its units in a non-registered account.



Of course, each investor will need to look at their own situation. For instance, if you have room in your TFSA, it doesn't make sense to have investments in a non-registered account to be exposed to taxation.

**In conclusion**

REITs are tax-deferred investments. So, if you don't mind hassle and math, it may be more advantageous to hold them in a non-registered account if a large portion of their distributions is return of capital.

Dream Office REIT offers an attractive yield of 9% for income seekers. This income is paid out monthly, so you can do whatever you want with it. For example, you could use it to pay bills or you could reinvest it.

**CATEGORY**

1. Dividend Stocks
2. Investing

**TICKERS GLOBAL**

1. TSX:D.UN (Dream Office Real Estate Investment Trust)

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