Get $1,000 in Monthly Rental Income From Northwest Healthcare Properties 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 they typically own and operate hundreds of properties.

How to receive $1,000 in monthly income

Buying 15,000 units of **Northwest Healthcare Properties REIT** (TSX:NWH.UN) at $8 per unit would cost a total of $120,000, and you'd receive $1,000 per month, a yield of 10%!

Investment	Annual Income
$120,000	$12,000
$60,000	$6,000
$12,000	$1,200

Most of us probably don't have over $100,000 lying around. No problem. You could buy 7,500 units at $8, costing a total of $60,000, and you'd receive $500 per month, and still get a 10% income from your investment.

Okay, $60,000 is still too much. Instead, you could buy 3,750 units at $8 per unit, costing $12,000, and you'd receive $100 per month.

See what I'm getting at? You'd receive that 10% annual income no matter how much you invest. And the investment amount is up to you.

Is Northwest Healthcare Properties REIT's income safe?

Northwest Healthcare Properties hasn't cut its distribution since 2011. Additionally, its payout ratio is sitting around 80%. So, it's likely the REIT will continue paying that 10% yield.

If you don't need the income today, you could reinvest the distributions with a 3% 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 don't 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.

From 2011 to 2014 over 94% of Northwest Healthcare Properties REIT's distribution was return of capital. So, if you received $48,000 of income throughout the four-year period, over $45,120 was tax deferred!

If Northwest Healthcare Properties keeps this up, it's actually more advantageous to hold its units in a non-registered account if you just plan to receive the juicy monthly distribution without selling. Of course, you'll need to start paying tax once the adjusted cost basis goes negative.

Still, you should look at your 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.

Northwest Healthcare Properties REIT offers an attractive yield of 10% for income seekers. This income is paid out monthly, so you can do whatever you want with it. You could use it to pay bills or you could reinvest it.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:NWH.UN (NorthWest Healthcare Properties Real Estate Investment Trust)

Category

1. Dividend Stocks
2. Investing

Date
2025/08/28
Date Created
2015/06/30
Author
kayng