



## Get \$1,000 of Monthly Rental Income From Northern Property REIT

### Description

Some investors buy properties and rent them out to receive rental income. Those properties require a huge amount of capital upfront. 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.

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

Northern Properties owns multi-family residential properties in Alberta, Northwest Territories, Nunavut, Newfoundland and Labrador, and is expanding into British Columbia, Saskatchewan, and Quebec.

Northern Properties focuses on northern and secondary areas of Canada where growth rates are typically higher. However, the recent oil price decline has brought Northern Properties' share price down with it. It has declined 26% from its 52-week high. Historically, the company has traded at a price-to-funds-from-operations ratio of over 11, indicating a price of \$28-29 or an upside of 25-30%.

### How to receive \$1,000 in monthly income

Buying 7,392 units of **Northern Property REIT's** (TSX:NPR.UN) at about \$22.30 per unit would cost a total of \$164,842, and you'd receive \$1,000 per month, a yield of 7.3%.

#### Investment Annual Income

\$164,842	\$12,000
\$82,421	\$6,000
\$16,485	\$1,200

Most of us probably don't have that kind of cash lying around. No problem. You could buy 3696 units at \$22.30, costing a total of \$82,421, and you'd receive \$500 per month, and still get a 7.3% income from your investment.

OK, \$82,421 is still too much. Instead, you could buy 740 units at \$22.30 per unit, costing \$16,485, and you'd receive \$100 per month.

See what I'm getting at? You'd receive that 7.3% annual income no matter how much you invest. And the investment amount is up to you.

### **Is Northern Property REIT's income safe?**

Between 2004 and 2014 Northern Property's distribution increased by 3%. Additionally, its payout ratio is sitting around 67%. So, it's likely the REIT will continue paying that 7.3% yield, and even surprise you by hiking it occasionally.

### **Tax on the income**

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.

So, to avoid any headaches when reporting taxes, buy and hold REIT units in a TFSA or an RRSP. However, the return of capital portion of the distribution is tax deferred. So, it may be worth the hassle to buy REITs with a high return of capital 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 hold investments in a non-registered account to be exposed to taxation.

### **In conclusion**

Northern Properties REIT offers an above average yield of 7.3%, with potential for double-digit capital appreciation when the sentiment around oil prices turns positive. The REIT pays a monthly income, so you can do whatever you want with it, such as paying for bills.

### **CATEGORY**

1. Dividend Stocks
2. Investing

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