Get $1,000 in Monthly Rental Income From Canadian 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 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.

Canadian REIT (TSX:REF.UN) was the first publicly listed REIT in Canada in 1993. Since then, the REIT's business objective has been to accumulate high-quality property assets. At the same time, it maintains high occupancy levels and high rental rates, and it also maintains a very conservative payout ratio, ensuring it can continue to increase its distribution every year. As a result, its yield of 4.2% is very safe.

Canadian REIT's portfolio is diversified with roughly 50% of income coming from retail properties, 25% from office properties, and 25% from industrial properties.

Its share price has declined 15% from its 52-week high of $50. At about $42.50 per share, the REIT trades at a price-to-funds-from-operations ratio of 14.2, which is a fair multiple for Canadian REIT's high-quality shares.

How to receive $1,000 in monthly income

Buying 6,676 units of Canadian REIT at about $42.50 per unit would cost a total of $283,688, and you'd receive $1,000 per month—a yield of 4.2%.

Investment	**Annual Income**
$283,688	$12,000
$141,844	$6,000
$28,369	$1,200

Most of us probably don’t have that kind of cash lying around. No problem. You could buy 3,336 units at $42.50, costing a total of $141,844, and you’d receive $500 per month and still get a 4.2% income from your investment.

Okay, $141,844 is still too much. Instead, you could buy 668 units at $42.50 per unit, costing $28,369, and you’d receive $100 per month.

See what I’m getting at? You’d receive that 4.2% annual income no matter how much you invest. And the investment amount is up to you.

Is Canadian REIT’s income safe?

From 1994 to 2014 its funds from operations grew from $1.67 per unit to $2.96 per unit, an annual growth rate of 5.9%. As the business expands, the REIT has been rewarding shareholders. Over five years, its distribution increased at a compound annual growth rate of 5%, while maintaining a payout ratio of below 62%.

Having increased its distribution for 13 years in a row, Canadian REIT pays the safest REIT yield around, and it should continue paying that 4.2% yield and hiking it every year.

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

Canadian REIT offers a safe yield of 4.2%, with expectations of increasing it every year based on the company’s conservative business model and track record. The REIT pays a monthly income, so you can do whatever you want with it.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

Category

1. Dividend Stocks
2. Investing

Tags

1. Editor's Choice

Date
2025/08/27
Date Created
2015/08/04
Author
kayng