Get $1,000 of Monthly Rental Income From RioCan Real Estate Investment Trust

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.

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

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Since its inception in 1993, **RioCan Real Estate Investment Trust** (TSX:REI.UN) has become an industry-leading retail REIT. RioCan is Canada's biggest REIT with an enterprise value of roughly $16 billion at the end of June 2015. The REIT has ownership interests in a portfolio of 353 retail properties, including 15 under development.

It has approximately 7,600 loyal tenants. About 84% of RioCan's revenue is generated in Canada, while 16% comes from the United States. Of the 84% revenue from Canada, close to 43% comes from Toronto, and almost 11% comes from Ottawa. Of the 16% that comes from the U.S., 55% comes from the state of Texas.

The REIT's revenue source is diversified by tenant, with none generating more than 4.1% of revenue. Its top tenants include recognizable names such as Shoppers Drug Mart, **Loblaw Companies Limited**, **Wal-Mart Stores, Inc.**, and **Canadian Tire Corporation Limited.**

Since 1996, the REIT has maintained an occupancy rate of 95% or higher. Further, its lease expiry dates are spread out. In addition, RioCan hasn't cut its distribution for at least 18 years, and it has occasionally increased it. Its 5.7% yield is pretty solid with a payout ratio around 85%.

How to receive $1,000 in monthly income

Buying 8,511 units of Canadian REIT at about $24.70 per unit would cost a total of $210,222, and you'd receive $1,000 per month, a yield of just over 5.7%.

Investment	Annual Income
$210,222	$12,000
$105,111	$6,000
$21,023	$1,200

Most of us probably don't have that kind of cash lying around. No problem. You could buy 4,256 units at $24.70, costing a total of $105,111, and you'd receive $500 per month, and still get a 5.7% income from your investment.

Okay, $105,111 is still too much. Instead, you could buy 852 units at $24.70 per unit, costing $21,023, and you'd receive $100 per month.

See what I'm getting at? You'd receive that 5.7% annual income no matter how much you invest. And the investment amount is up to you.

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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

RioCan REIT offers a diversified yield of 5.7% from a portfolio of retail properties in Canada and the United States. The REIT pays a monthly income, so you can do whatever you want with it. If you don't need the income right now, you could reinvest the distributions at a 3% discount from the market price.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:REI.UN (RioCan Real Estate Investment Trust)

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