Get $1,000 in Monthly Rental Income From H&R 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.

H&R Real Estate Investment Trust (TSX:HR.UN) is a diversified REIT that primarily owns retail, industrial, and office properties. Specifically, it has a portfolio of 40 office properties, 162 retail properties, 105 industrial properties, and five residential properties.

There is lots to like about H&R REIT. From 1997 to June 30, 2015, it has maintained high occupancy rates of at least 97%. In addition, 12 of its top 15 tenants have investment grade credit ratings. It also has a strong balance sheet with a debt-to-cap ratio of 45%.

One thing I don't like about H&R REIT is that it receives 11.6% of rental income from **Encana Corporation**. Its second-largest tenant is **BCE Inc.**, which generate 7.9% of its rental income. That is, the REIT has concentration risk in two tenants. I'm more worried about Encana than BCE because the former has an S&P credit rating of BBB, while the latter's is BBB+.

How to receive $1,000 in monthly income

If you still like H&R REIT, you can buy 8,889 units at $21 per unit. It would cost a total of $186,669, and you'd receive $1,000 per month, a yield of roughly 6.5%.

Investment	Annual income
$186,669	$12,000
$93,335	$6,000
$18,667	$1,200

Most of us probably don’t have that kind of cash lying around. No problem. You could buy 4,445 units at $21, costing roughly $93,335, and you’d receive $500 per month and still get a 6.5% income from your investment.

Okay, $93,335 is still too much. Instead, you could buy 889 units at $21 per unit, costing $18,667, and you’d receive $100 per month.

See what I’m getting at? You’d receive that 6.5% annual income no matter how much you invest. And the investment amount is up to you.

Is H&R REIT’s income safe?

H&R REIT had a hard time during the financial crisis. In 2009, it cut its monthly distribution in half from 12 cents per unit to six cents per unit. From July 2010 to January 2013, it steadily increased its monthly distribution to 11.25 cents per unit. It has maintained at those levels until now.

H&R REIT’s average lease term is over nine years, implying that its funds from operations should remain stable. In the second quarter of 2015, H&R REIT’s payout ratio was 69%. So, its annual payout of $1.35 per unit seems sustainable for the time being. At $21 per unit, it yields 6.5%.

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

H&R REIT offers a diversified yield of 6.5% from a portfolio of retail, office, and industrial properties. The REIT pays monthly income, so you can do whatever you want with it, including paying your bills.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:HR.UN (H&R Real Estate Investment Trust)

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