Get $1,000 Every Month From Crombie 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 decent 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.

About Crombie

Crombie Real Estate Investment Trust (TSX:CRR.UN) was established in 2006 and is now a leading retail property landlord in Canada. After selling 10 properties in March, the REIT owns 251 properties totaling about 16.9 million square feet with a focus in 36 top markets.

Crombie plans to recycle the proceeds by looking for opportunities in growth markets that fit its strategy of creating long-term value and generating a reliable cash distribution.

Crombie collects about 42% of its rent from Atlantic Canada, about 22% from central Canada, and roughly 37% from western Canada.

Most of its properties are either grocery and drug store-anchored shopping centres or freestanding stores that tend to generate stable cash flows. In eastern Canada, its retail properties are usually anchored by Safeway. It also owns a small percentage of mixed-use and office properties.

How to receive $1,000 in monthly income

Buying 13,488 units of Crombie REIT at $14.35 per unit would cost a total of $193,553. You'd receive $1,000 per month, a yield of 6.2%.

Most of us probably don't have that kind of cash lying around. No problem. You could buy 6,744 units at $14.35, costing a total of $96,777, and you'd receive $500 per month and still get a 6.2% yield from your investment.

Okay, $96,777 is still too much. Instead, you could buy 1,349 units at $14.35 per unit, costing $19,356, and you'd receive $100 per month.

See what I'm getting at? You'd receive that 6.2% annual income no matter how much you invest. And the investment amount is up to you.

Investment	Annual Income
$193,553	$12,000
$96,777	$6,000
$19,356	$1,200

Is Crombie REIT's income safe?

Crombie REIT's adjusted funds from operations payout ratio was 91.5% in the first quarter, which was an improvement from the payout ratio of 97.5% in the first quarter of 2015. Additionally, it has a high committed occupancy of 93.3%. So, its high yield of 6.2% should be safe for now.

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 of 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

If you're looking for an above-average yield, consider Crombie REIT, which has been paying a monthly distribution since 2006 without cutting it. If the REIT falls below $13, it'd be a stronger buy.

Although Crombie REIT pays a much higher yield than GICs and conveniently pays a monthly distribution, it is considered to be riskier than GICs because it's a stock that's innately volatile. Comparatively, at maturity you would get your principal back from a GIC.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CRR.UN (Crombie Real Estate Investment Trust)

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