



Want Income? Get \$1,000 of Rent Every Month

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. It used to be a dream for the average Joe to invest in commercial real estate. Well, not anymore!

About Dream Global

Dream Global REIT (TSX:DRG.UN) owns and operates 13.5 million square feet of office and mixed-use space primarily in the major office markets in Germany. It also recently entered the Austrian market. So, Dream Global is an opportunity for Canadians to invest in the European commercial real estate market.

Most of Dream Global's 203 properties are in the seven largest office markets of Germany, including Hamburg, Dusseldorf, Cologne, Frankfurt, Stuttgart, Berlin, and Munich.

Germany is expected to continue to experience economic growth this year. Commercial real estate investment reached EUR\$55 billion in 2015, almost 40% higher than 2014. Additionally, in major office markets there, rental rates have been increasing. These are all good signs for Dream Global.

How to receive \$1,000 in monthly income

Buying 14,998 units of Dream Global at \$8.92 per unit would cost a total of \$133,780. You'd receive \$1,000 per month, a yield of almost 9%.

Most of us probably don't have that kind of cash lying around. No problem. You could buy 7,499 units

at \$8.92, costing a total of \$66,892, and you'd receive \$500 per month and still get a 9% yield from your investment.

Okay, \$66,892 is still too much. Instead, you could buy 1,500 units at \$8.92 per unit, costing \$13,379, and you'd receive \$100 per month.

See what I'm getting at? You'd receive that 9% annual income no matter how much you invest. And the investment amount is up to you.

Investment Annual Income

\$133,780	\$12,000
\$66,892	\$6,000
\$13,379	\$1,200

Is Dream Global's income safe?

In the first quarter, Dream Global's occupancy rate and market rent continue to improve from the fourth quarter of 2015. These improving fundamentals make its high distribution yield safer than before.

Dream Global's payout ratio is 100%. However, due to about 12.8% of reinvested distributions, the cash payout ratio ended up being 87.3% in the first quarter. So, the REIT's high yield is sustainable for now.

With the continued low interest rate environment in Germany, Dream Global sees opportunities to lower its borrowing costs. As well, it continues to be on the lookout to further invest so as to strengthen its cash flow over time, which will improve the safety of its distribution.

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 a high yield, consider Dream Global, which capitalizes on the growing German real estate market. If the REIT is closer to \$8 per unit at a yield of 10%, it'd be a stronger buy.

CATEGORY

1. Dividend Stocks

2. Investing

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