



How to Get Monthly \$500 Passive Income Tax Free

Description

Anyone can use some extra passive income. You can become a passive landlord immediately! All it takes is for you to passively invest in real estate. Without having to lift a finger, you can earn monthly income.

To passively invest in real estate, buy units in real estate investment trusts (REITs); it's much like buying shares of a company. Here are a few REITs with safe monthly cash distributions you can consider today!

H&R REIT

The stock of diversified **H&R REIT** ([TSX:HR.UN](#)) is on a recovery path. It still has an upside of approximately 40% to get back to its recent net asset value of \$22.24.

Last month, it reported first-quarter results that saw funds from operations (FFO) of nearly \$120 million roll in — a decline of 12% year over year. FFO per unit came in at \$0.40 — a decline of 11%. This translated to an FFO payout ratio of about 44%. This is a low payout ratio for a REIT, especially since FFO per unit is anticipated to rebound to normalized levels in 2022.

The low payout ratio provides a margin of safety to protect the monthly dividend near-term FFO could be further pressured. In Q1, its retail portfolio rent collection was 92%, while its office, residential, and industrial rent collection remained resilient at 99%, 96%, 100%. In the near term, enclosed mall rent collection could be volatile due to pandemic impacts, as people prefer to shop at open-air shopping centres.

The monthly income stock yields a decent 4.3% at writing. The good news is that it'll likely improve its cash distribution to more normalized levels as its FFO improves. Buyers today are probably looking at a forward yield of about 8%, but it might take a few years to recover its cash distribution to that level.

Granite REIT

H&R REIT's industrial assets were the most defensive among its entire real estate empire. Unfortunately, they only contributed to 6% of its rental income.

That's not the case for **Granite REIT** ([TSX:GRT.UN](https://www.scribd.com/document/444444444/TSX-GRT-UN)), which is 100% an industrial REIT. In fact, Granite owns about 115 properties across seven countries, including Canada, the United States, Germany, the Netherlands, and other parts of Europe.

Here's the company's recent results. For Q1, it reported net operating income growth of 20% to \$81.5 million versus Q1 2020. FFO increased marginally by 0.5% to \$57.1 million. FFO per unit declined 11% to \$0.93. Excluding refinancing costs, FFO per unit would only have declined less than 5% to \$1.00. Granite REIT's adjusted FFO payout ratio was about 78%, and its occupancy remained strong at 99.1%.

Notably, Granite REIT's largest tenant is **Magna**, which contributes about 35% of its annualized rental revenue.

[Granite REIT](#) is good for an initial yield of about 3.7%. Furthermore, it has increased its cash distribution every year since 2011. It looks like it can continue this tradition over the next few years.

Get \$500 a month tax free

Between [H&R REIT's](#) forward yield of 8% and Granite's 3.7%, the stabilized yield would be about 5.8%. To get \$500 of passive income a month on a 5.8% requires a total investment of about \$103,448 divided equally between the two REITs.

If you have maximized your TFSA and invested in quality stocks since the account's inception in 2009, you'll likely be sitting on more than \$103,448.

The TFSA is a great place to buy and hold REITs. First, REITs can provide reassuring monthly income. Second, they pay out cash distributions that are taxed differently than eligible Canadian dividends. And it just saves a lot of hassle to hold REITs in a TFSA.

Specifically, in non-registered accounts, REIT's return of capital portion of the distribution is tax deferred until unitholders sell or the adjusted cost basis turns negative.

REIT distributions can also contain other income, capital gains, and foreign non-business income. 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.

CATEGORY

1. Dividend Stocks
2. Investing
3. Personal Finance
4. Stocks for Beginners

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Business Insider
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Author

kayng

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