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## REIT's Explained

With the first stirrings of spring-like weather the real estate “for sale” signs begin to pop up around the neighbourhood like crocus blooms. There’s something about the sense of renewal when the days lengthen and the snow melts that gives many the urge to upgrade to a bigger home or perhaps to buy their first.

As anyone who has been involved in a real estate transaction knows the experience can be rewarding in the long run but can also be complicated, stressful, and expensive. Few choose to buy or sell a property without the aide of a real estate professional and / or a lawyer, and most involve financing via a bank or trust company. The process can take some time, which is why real estate investments are not considered to be liquid, relative to investments one holds in their portfolio.

There are many who desire real estate as an investment, especially where properties can provide rental income. Yet, the headaches of being an active landlord cause many to avoid a direct involvement in owning and managing investment properties. This is where real estate income trusts (REIT's) may fit in. A REIT is a trust that pools the capital of many investors, where it is then invested in

a group of real properties intended to generate cash on a regular basis (usually monthly). Instead of investing directly in real estate investors own REIT units which are publicly traded. Canadian REIT's may include residential apartments, commercial buildings, retirement homes, hotels, or industrial properties.

In addition to providing relatively stable and predictable income, distributions from REITS may have tax advantages. While the tax advantages enjoyed by other types of income trusts will change in 2011, most REIT's will be exempt and continue to enjoy a tax advantage relative to other types of income (hotel and retirement home REIT's are the exception, and distributions will be taxed in the same way as corporate dividends). REIT's may also provide a hedge against inflation since property values and rental rates tend to move with inflation over the long term.

So, if you have an inclination to participate in real estate but want the liquidity provided by the market, regular income, and potential for growth, Real Estate Income Trusts may be worth a look.

## Quick Tips to Help Reduce the Taxes You Pay

- Take advantage of the flexibility of the new Tax-Free Savings Account (TFSA) to grow your savings tax-free.
- Defer a year-end bonus to January if you will be in a lower tax bracket next year.
- Where possible, take advantage of the new pension income splitting rules to split income with your spouse (or common law partner), particularly if your retirement incomes are disproportionate.
- Pay interest on family loans incurred in the previous taxation year by January 30th. A prescribed rate loan is an ideal way to split investment income with a spouse – particularly if the loan is established when the prescribed rates on family loans are low.
- Pay your quarterly income tax installments on time to minimize non-deductible interest charges and consider the impact of investment income on your required tax installments.
- Make your annual RRSP contribution as early in the year as possible.
- Make an RESP contribution by December 31st to receive a Canada Education Savings Grant for eligible beneficiaries.

- Consider a charitable donation of appreciated publicly-traded securities, instead of cash donations.
- Review your investment portfolio to consider the sale of securities with accrued losses before the end of the year to offset capital gains realized in the year and/or to create a net capital loss to offset gains realized in the three preceding years.

For more information on these strategies, please call me at (905) 897-5502, or email me at [ginny.arnott@nbpcd.com](mailto:ginny.arnott@nbpcd.com) for our publication entitled “Tax Tips for Investors”.

As the above comments are general in nature, please consult with your professional tax advisor for assistance in your personal situation.

## Monthly Investment Feature

**Canadian Apt. Properties REIT:  
7.53%\* ann. cash yield**

\* Prices and yields are as of March 4th, 2010, are subject to change and are not guaranteed.

For more information on this and other high yield Investments please contact me.

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