Are You Looking for a Lifetime of Tax-Free Income?

Description

Tax-free savings accounts (TFSAs) and real estate investment trusts (REITs) are a powerful combination. You can invest in a TFSA, and the income and capital gains that you earn will be tax free. By investing REITs in a TFSA, you can generate a high yield from rent every month.

If you are a Canadian resident who was at least 18 years old in 2009 and you've never contributed to a TFSA, your contribution room would be $46,500 this year.

If you invested $46,500 for an 8% yield, you would generate a monthly income of $310, an annual income of $3,720. Comparatively, the best interest rate from a savings account is about 2.4%, and that's a temporary deal.

Where can you get an 8% yield?

Here are two REITs that offer a yield of more than 8%.

Dream Global REIT (TSX:DRG.UN) yields 8.7% at $9.15 per unit. At the end of March, Dream Global had 13.5 million square feet of commercial real estate across 203 properties.

The REIT primarily owns and rents out office and mixed-used properties in the seven major office markets in Germany. It also entered the Austrian commercial real estate market last year.

High yield doesn't come without risk. Based on its first-quarter diluted funds from operations (FFO) per unit, Dream Global's payout ratio was 100%.

So, there's no margin of safety for its 8.7% yield. However, 13% of unitholders participated in the dividend-reinvestment plan, which resulted in an actual payout ratio of 97%.

NorthWest Health Prop Real Est Inv Trust (TSX:NWH.UN) is an international healthcare REIT that offers a yield of 8.3% at $9.66 per unit.

At the end of the first quarter, it had 7.8 million square feet of high-quality healthcare real estate across

120 properties with a high occupancy rate of 96.1%.

It generates about 50% of its net operating income from Canada, 23% from Brazil, 19% from Australasia, and 8% from Germany. In terms of asset mix, it earns about 61% from medical office buildings and 39% from hospitals.

Compared to Dream Global, NorthWest's yield is safer because in the first quarter, its adjusted FFO payout ratio was 92%. As well, it is more geographically diversified and is backed by a growing aging population.

Conclusion

Investing in a TFSA for a lifetime of tax-free income is a wonderful tactic. However, it should only be a part of a bigger strategy because REITs generally experience slower growth than other industries, such as technology.

If you also want growth in your portfolio, allocate resources in growth industries, and allocate, say, up to 20% of your portfolio in high-yield income vehicles such as REITs.

If you invest $5,000 in each of Dream Global and NorthWest today, you'll earn an annual income of $850 for an 8.5% yield. All that income is tax free for a lifetime if you hold them in a TFSA!

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:NWH.UN (NorthWest Healthcare Properties Real Estate Investment Trust)

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