2 High-Yielding REITs for Your 2019 TFSA Contribution

Description

A stock market is a crazy place sometimes. For years, people were flocking to dividend stocks, driving their valuations sky high and their yields to rock bottom. Suddenly, high-yielding dividend stocks are abundantly available, and no one seems to want to have anything to do with them.

If you have been taking advantage of the sell-off by purchasing some of the more solid dividend payers like **BCE** (TSX:BCE)(NYSE:BCE) and **Emera** (TSX:EMA), it might be time to look into other sectors in an attempt to diversify your holdings and maximize the tax-effectiveness of your accounts, especially your TFSA.

With its tax-advantaged status, your TFSA is an efficient place to park your REIT holdings. REITs, in contrast to regular dividend stocks, pay distributions rather than dividends. This means that unless they are held in a registered account, they will be 100% taxable, much the same as the interest on a savings account.

Choosing larger, more established companies is often a good strategy if you are looking for steady, stable income. In Canada, there are a number of REITs to choose from, but if you want stability and great income, two tend to stand out above the rest. **H&R REIT** (TSX:HR.UN) and **RioCan REIT** (TSX:REI.UN) both fit the bill, providing high yields, diversification, and serious payouts for income-focused investors.

Both of these REITs pay incredible yields at their current prices. H&R has a yield of around 6.67% at its current share price, and RioCan pays just over 6%. While neither of these companies raises their dividends on a steady yearly basis, they have in recent years bumped their payouts slightly.

On a valuation basis, both companies are very cheap at current prices. RioCan, for example, trades at a price-to-earnings multiple of just under 11 times trailing earnings and a price to book of 0.9. H&R appears even cheaper, with a trailing price to earnings of just over 10 and a price to book of 0.8. At these valuations, both of these stocks are very tempting.

But there are dark clouds on the horizon that might affect an investor's decision to buy. One of the most important considerations is the fact that years of easy money and low interest rates have inflated global real estate prices considerably. While almost every other asset has deflated to a degree, real estate prices remain at nosebleed levels. If there is a downturn in real estate values, the book value of both companies could come down considerably.

The second point to ponder is the possibility that we are late in the economic cycle. High debt loads are putting pressure on consumers, as higher interest costs reduce their ability to spend. Reduced spending could lead to lower mall traffic, failing businesses, and lower rents. Since RioCan and H&R both possess retail buildings as assets, earnings could be negatively affected.

The final negative is the potential long-term cyclical move towards online shopping. It is possible that online shopping could negatively impact the viability of shopping malls in the future. This could further depress share prices of REITs, especially if it occurs in combination with a recession.

While there are some potential pitfalls with these REITs, the fact remains that Canada is an economically and socially stable nation. These companies are likely to be around for some time in spite of the economic risks. If you are comfortable with Canada's prospects, both of these REITs will generate excellent tax-free income in your TFSA for years to come.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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

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