1 Sector That Belongs in Your TFSA

Description

You now have all that new TFSA room, so it's time to start thinking about what you want to buy. The good news is that at the moment there are still great deals on many of the Canadian stocks. The TFSA is a tax-free vehicle, so it would make sense to make the most of this account.

Since Real Estate Investment Trusts (REITs) are great income providers and they don't benefit from the dividend tax credit, it would make sense to buy these stocks within your TFSA account. Canada is fortunate to have a number of excellent REITs that also happen to pay generous distributions.

Chartwell Retirement Residences (TSX:CSH.UN)

With the demographics of an aging population, Canada is a great place to capitalize on the retirement needs of the elderly. Chartwell is Canada's largest provider of senior housing, so they are well positioned to benefit from this trend. The company owns and operates units all over the country.

In the third quarter of 2018, Chartwell demonstrated its ability to perform financially. Funds from operations increased by 5.6% over the same quarter of 2017. These results helped the company to continue paying its 4% distribution. The distribution has been growing steadily, including a 2.1% increase earlier this year.

The biggest downside to the company is its heavy exposure to the Ontario real estate market. Over 50% of its properties are in that province, meaning its book value could be negatively affected if there were a contraction in real estate prices.

Granite REIT (TSX:GRT.UN)

Operating in an entirely different industry than Chartwell, Granite is another Canadian-based REIT that focuses on providing properties to the industrial sector. Its largest client is Magna International Inc. (TSX:MG)(NYSE:MAG), a major auto parts manufacturer. This relationship is both a blessing and a curse, however. While Magna is a solid company, the close relationship means that much of Granite's fate is tied to the auto parts company.

Nevertheless, Granite is executing well on its commitments. In the third quarter, Granite posted increased revenue of 10.3% over the same quarter a year earlier. Adjusted EBITDA was also up by over 30.9% as compared to 2017. Granite pays a distribution of around 4.78% at the moment, which includes an increase of 2.9% announced in Q3.

REIT Exchange-Traded Funds (ETFs)

If you're nervous about individual companies, you might be better off choosing one of Canada's ETF alternatives. The **iShares S&P/TSX Capped REIT Index Fund** (TSX:XRE), BMO Equal Weight REITs Index ETF (TSX:ZRE), and Vanguard FTSE Canadian Capped REIT Index ETF (TSX:VRE) all are decent choices with fairly similar holdings. The biggest differences are in the capped vs equal weighting method of determining percentage allocated to each holding, Management Expense Ratio (MER), and distribution yield.

The XRE currently has a yield of 4.63% and a MER of 0.61%. ZRE has a similar yield of 4.67% and a similar MER of 0.61%. The VRE has a smaller yield than the other two at 3.63%, but it also has a smaller MER of 0.39%. So the biggest decision to make is if you want a lower MER or a bigger distribution.

Just start investing

If you're looking for yield, any of these companies or ETFs would be a good fit for your portfolio. Whether you take a swing at an individual company or decide to go with a more diversified ETF, any of these should do well over the long term within your TFSA.

CATEGORY

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

TICKERS GLOBAL

1. TSX:CSH.UN (Chartwell Retirement Residences)
2. TSX:GRT.UN (Granite Real Estate Investment Trust)
3. TSX:XRE (iShares S&P/TSX Capped REIT Index ETF)
4. TSX:ZRE (BMO Equal Weight REITs Index ETF)

PARTNER-FEEDS

1. Msn
2. Newscred
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