Earn $1,000/Month in Tax-Free Income With This 12%-Yielding REIT and a $100K TFSA

Description

If you're a retiree with a six-figure TFSA, you have the ability to turn it into a generous income stream that can pay you for life. And the best part is, the tax man won't be able to touch a penny of the monthly payments you'll receive.

The quality REITs I'm going to bring to your attention have yields north of the 6% mark. They also have the potential to achieve above-average capital gains and fairly frequent distribution raises over time. With the potential for bountiful total returns, such REITs will have no problem putting your "risk-free" fixed-income securities to shame.

So, if you're not willing to settle for below-average returns with bonds and are willing to face volatility head on, consider **American Hotel Properties REIT** (TSX:HOT.UN), a high-risk, high-reward REIT that could give you a massive instant raise.

With a distribution yield of 12%, American Hotel Properties is one of the most bountiful REITs that Canadian investors can buy today. While any double-digit yield should ring alarm bells in the ears of investors, I think the artificially high yield that resulted from American Hotel's fall from glory is the safest 12%-yielding distribution that you'll probably ever find.

Of course, the distribution isn't the safest in the world, but if you're willing to take on a bit of risk for a potentially higher reward, I'd say the opportunity to lock in the high yield is present if you're a believer in management and its plan to get the wheels back on the rails after another rough year.

As you've probably guessed from the name of the REIT, American Hotel Properties is an owner and operator of 112 hotels across various U.S. states.

Compared to other REIT sub-industries like residentials, the hotel business is incredibly fickle, as it's difficult to forecast vacancy rates at any given instance in time. The REIT and the hotel industry in general are highly sensitive to the state of the economy, and given the U.S. economy got hit with a slowdown in the latter part of 2018, American Hotel Properties shares were quick to flop with most other cyclical names.

Fourth-quarter revenues pulled back 3%, as the REIT shut down some of its units for much-needed renovations. These renovations came at the worst possible time as the slowdown in economic growth sparked fears that we could be headed into a recession. Consumer confidence slumped, and American Hotel Properties got pummelled, as everybody seemed to be convinced that the sky would fall in 2019.

That wasn't the case, and as it turned out, the recession fears that caused the October-December sell-off were overblown. With nothing but pessimism baked into shares of the incredibly cyclical American Hotel Properties, I think there's significant room to run as the U.S. economy re-accelerates in the latter part of 2019.

Fellow Fool Nelson Smith noted that management is "confident the payout ratio will improve in 2019 now that certain marquee properties have completed their renovation programs." With the payout ratio projected to fall to around 85%, the massive distribution is poised to get safer as time goes on, assuming we don't actually fall into the recession that so many pundits have been calling for over the past few years.

Inverted yield curve or not, I don't see a recession coming anytime soon. If anything, I expect the economy and consumer confidence to recover this year, especially if a surprise U.S.-China trade deal is announced.

Although the hotel REIT has nothing to do with China, consumers will be much more likely to travel and book a hotel stay if they're not worried about layoffs, stagnant wages, or higher costs of foreign goods associated with tariffs. Add re-opened, renovated units into the equation, and I think American Hotels Properties is due for a big bounce.

If you aren't dependent on income from your investments and would like to take a chance on potentially locking in a massive yield for your future self, American Hotel Properties is the horse to bet on. Be warned though: if a recession does end up happening, the 12% distribution is going bye-bye. Thus, I'd only recommend American Hotel Properties to younger investors who are better equipped to deal with stomach-churning market moves.

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