Passive Income 101: Top REITs to Snowball Your TFSA

Description

When building your TFSA passive-income fund, you need to look beyond yield or even the sustainability of the dividend behind the security you're interested in buying. You need to consider growth!

You see, despite the lower magnitude of growth offered by higher-yielding securities, especially REITs, which are required to distribute a huge chunk of their net income back to shareholders, prudent long-term REIT investors know that growth still matters and can make the difference between a somewhat comfortable retirement and a rich one.

Moreover, given that life expectancy is on the rise, investors need growth if their income stream is to remain resilient over time, not only to keep up with inflation, but to provide real growth in purchasing power over time.

So, in short, you're going to need to roll up your sleeves and find the perfect cocktail of upfront yield, distribution sustainability, and distribution growth over the long term. The latter trait, I believe, has been neglected by many REIT investors, and this piece will attempt to show you one REIT that has the best of all worlds in the form of a large, growing, and sustainable distribution.

Consider **SmartCentres REIT** (TSX:SRU.UN), a REIT that I find to be quite off-putting because of the name. Yes, it's a retail REIT, but, no, it's not just going to collect rent from its tenants until they close shop and take all their business online. While e-commerce is a continuously growing threat to brick-and-mortar retailers to this day, SmartCentres REIT not only has robust retailers that can better weather the digital onslaught; it has a long-term plan to adapt and thrive given the unfortunate situation being faced by physical retailers.

In spite of the tremendous disruption in the retail scene, SmartCentres will continue to profit as long as its tenants remain upright. And given the quality of tenants, like **Wal-Mart**, and various other robust Canadian retailers fared well in spite of recent pressures, I don't see a scenario where vacancies rates will pop overnight.

If you're not a fan of malls, strip malls, or brick-and-mortar retail in general, you're probably not going to like SmartCentres REIT no matter what. My best rebuke to such a shunning of the broader physical retail market is to get investors to consider what would happen in a worst-case scenario where a huge chunk of SmartCentre's tenants start going belly up in droves.

SmartCentres would likely be able to lease the newly vacant area to a better-performing tenant, likely a foreign firm that's been growing quickly, like Diaso, Miniso, and various other traffic-driving Asian chains. As one retailer flops, another could take its place in Smart Centres, right?

Even if you believe all brick-and-mortar stores, even today's top-performing ones, are going the way of the do-do bird, SmartCentres has a long-term plan of diversifying into other real estate sub-industries, like residential, with the hopes of ultimately forming master-planned mixed-use communities.

Residential is the way to go for long-term reliability, and the proximity to strong retailers like Wal-Mart is a massive plus that SmartCentres has over purely residential REITs. As a residential tenant, it doesn't matter if you can get free same-day shipping on your groceries; it'll still be more convenient, perhaps even easier, to go across the street and pick up your weekly grocery haul. You'll probably be inclined to get a haircut, catch a movie, and head to the gym all in the same centre. That's convenience that not even e-commerce can match!

As SmartCentres continues to double-down on its long-term plan, I see a scenario where the firm will be able to command higher-than-market rents, both for its residential units as well as its retail units. That's a win-win in my books, and if you can see past the near-term retail-heaviness of the REIT, I think you'll be able to score outsized distribution growth over time.

At the time of writing, SmartCentres sports a 5.42% yield, but in time, I think it could grow into so much more.

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