Maximize Your TFSA With This REIT Yielding Almost 6%

Description

Historically low interest rates, fears of a softer economic growth, and the Fed's increasingly dovish outlook regarding rates has caused the yields on traditional income-producing assets such as bonds to fall to fresh lows. This has sparked a hunt for yield among retirees and other income-focused investors seeking to create a stable, steadily growing passive-income stream.

Among the best ways of growing wealth and creating a stable passive-income stream is by investing in REITs and holding them in a TFSA. **Dream Industrial REIT** (TSX:DIR.UN), which pays a regular sustainable monthly distribution yielding 5.8%, is one of the best investments to build long-term wealth.

Quality portfolio

The REIT owns a portfolio of 244 light industrial properties, which, at the end of the first quarter 2019, had an occupancy rate of 96.5% and average weighted lease term of 4.1 years. Those properties are tenanted by quality international companies including Nissan North America, **Coca Cola**, **Molson Breweries**, Accel and **TC Transcontinental** making up the top 10.

The ongoing explosion in the adoption of e-commerce and online shopping will act as a powerful tailwind for Dream Industrial because of soaring demand for light industrial properties for use as packing and distribution centres by online retailers. That will drive property valuations and rents across the industry higher, further boosting Dream Industrial's value.

The REIT has been steadily growing FFO, which, for the quarter, grew by an impressive 18% to $25 million, further enhancing the sustainability of its distribution. It also possesses a solid balance sheet, highlighting its financial strength. At the end of the first quarter, Dream Industrial had a net-debt-to-asset ratio of 42.4%, an interest-coverage ratio of 3.4 times, and available liquidity of $77 million.

Reinvesting distributions to maximize returns

While those characteristics highlight its appeal as an investment, it is Dream Industrial's almost 6%

yield coupled with the distribution-reinvestment plan (DRIP) that make it a compelling REIT to own.

The DRIP allows investors who don't immediately require the income to access the power of compounding and maximize returns by regularly reinvesting the distribution without incurring additional brokerage costs. A 3% bonus is paid for every dollar of the cash distribution, which is reinvested. This effectively means that for every dollar reinvested through the DRIP, $1.03 of units in Dream Industrial is purchased. The plan also recognizes fractional unit purchases, which accumulate and are then distributed once a full unit has accrued.

That not only allows investors to boost returns by accessing the magic of compounding, but it effectively boosts the distribution, giving it a yield of roughly 6%. This is not only more than double many GICs but is over four times greater than the 1.45% yield on 10-year Canadian government bonds.

The advantage of using the DRIP provides becomes clear when reviewing the return on $10,000 invested over the last 10 years. If an investor had elected to take the monthly distributions as cash, they would have a lump sum of $17,543, which represents a total return of 75%, or 11% on an annualized basis.

However, had they reinvested those regular payments over the lifetime of the investment, that lump sum would be $19,995, or almost double the initial investment, which is the equivalent of a 14% annual return.

Foolish takeaway

Dream Industrial remains one of the top REITs for Canadian investors seeking use a DRIP to access the power of compounding and maximize returns to achieve their investment goals sooner. The tax effective nature of a TFSA makes it the ideal vehicle to hold such an investment.

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