This REIT Is an Ideal TFSA Investment

Description

Real estate investment trusts (REITs) are one of the best TFSA income investments that you can buy on the Canadian stock exchange. They often have great yields with excellent track records of distribution payments. The TFSA's tax shelter benefits are also particularly positive for REITs, since distributions are taxed like interest and therefore would be fully taxable in contrast to most dividend payments.

Take a REIT like **RioCan REIT** (TSX:REI.UN) for example. This company owns some excellent properties in major centres like Toronto. Although most of these are retail hubs, the company also has some residential buildings that diversify its revenue somewhat. This should comfort those who believe that online shopping will devastate brick-and-mortar stores. Furthermore, many of its retail locations host grocery stores, drug stores, and other core businesses, which are still somewhat insulated from the online revolution.

Although RioCan's shares have been essentially flat for years, the company has managed to provide investors with a fantastic distribution. Considering the yield on a five-year GIC is sitting at around 2% with no hope of capital appreciation, the better than 5.4% yield RioCan provides is quite tempting. And while the distribution has not grown yearly, it has increased every few years over time.

Average net rent per square foot grew 6.9% year over year, continuing its history of strong profitability. But there are a couple of warning flags that investors should keep in mind before investing in this company, though. First and foremost, RioCan is dependent on two very unstable factors: the Canadian economy and the Ontario real estate market.

The Canadian economy is arguably one strong push away from a major recession, and the Toronto real estate market could very well be one of the most overpriced real estate markets in the world. If either of these two factors were to give, there could be some pain for RioCan. Toronto represents 47.6% of its annualized revenue as of its Q1 2019 report, so it is quite dependent on this major centre.

If nobody is coming to the stores on their properties, it is going to be difficult to receive rent. And if real estate values fall, there will be some damage to its book value. At the moment, though, its 97% occupancy rate is quite strong, and the Canadian economy is supporting the property values.

But with sales increasing in Toronto once again, the opposite might be true. It is possible that property values will climb once again. And if rising prices force more people to be long-term renters, its residential rental developments should be in high demand for years to come.

Of course, in the long run, even if these events do occur, the damage will be only a short-term blip on the investing horizon. Over time, people will probably continue to shop, and they will still need places to live. Real estate will most likely be here to stay as an investment for some time.

RioCan is a long-term cash-generation machine

So, put some units of this company into your TFSA investment account if you are looking for income generation. RioCan is positioned well if you believe in the long-term growth of the Canadian economy. Its distribution should remain intact, giving you tax-free cash generation in this savings vehicle for years to come.

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