Millennials: Turn Your $6,000 TFSA Contribution Into $60,000 in 5 Years

Description

Cash-poor millennials seeking to grow wealth at a solid pace need look no further than real estate investment trusts (REITs). REITs with diversified property portfolios are typically less-volatile investments than many other stocks, because they invest in income-generating, hard assets, endowing them with solid defensive characteristics.

One REIT that every investor should consider owning in their TFSA is **Dream Global REIT** (TSX:DRG.UN). Unlike many other REITs, it allows investors to avoid exposure to shopping malls and other properties affected by the retail apocalypse while diversifying into the Western European property market.

International property investment

Dream Global's portfolio is focused on Germany, where 73% of its assets by value are located with 21% in the Netherlands and 3% in Belgium and Austria. This allows investors to reduce investment risk by diversifying into real estate outside Canada in a range of developed markets that have little direct correlation to the TSX, which is weighted heavily towards commodity and financial stocks.

Dream Global reported some robust second-quarter 2019 results, highlighting why it is a very attractive investment and is consistently capable of unlocking value. Key numbers included an impressive occupancy rate of 91.8%, which was 1.9% higher than a year earlier.

There was also a 3% year-over-year increase in net rental income to $65 million, while funds from operations (FFO) sored by 6% to $51 million, and net income spiked by an impressive 37% to $249 million.

Dream Global's financial performance will continue to improve for the foreseeable future. The REIT is using a combination of organic growth strategies focused on value-adding and repositioning projects, tenant retention, development of existing properties, as well as acquisitions to drive earnings growth.

Another pleasing aspect of Dream Global's performance is its ability to steadily grow its net asset value

(NAV). For the second quarter, it had a NAV of $16.26 per unit, which was a healthy 21% higher than the equivalent period a year earlier and notably is 15% greater than its current market value.

This is crucial to note because it indicates that there is considerable upside available and it is rare for a high-quality commercial REIT that operates a profitable diversified portfolio of office properties.

Access the power of compounding

Another attractive aspect of Dream Global is its regular monthly distribution yielding a very juicy 5.6%. That distribution — with a trailing 12-month payout ratio as a proportion of diluted FFO of a modest 76% — indicates that the distribution is sustainable, which is further enhanced by Dream Global's ability to grow earnings.

It is this, along with the ability for investors to reinvest those distributions to acquire additional units at no costs through the REIT's distribution-reinvestment plan (DRIP), which makes it a powerful tool for creating wealth.

An investment of $10,000 made five years ago would have more than doubled to $22,122 had all distributions been reinvested compared to $19,620 if they were taken as cash. That means Dream Global has delivered a very impressive return of 121%, or 17% on an annualized basis if the distributions are reinvested compared to 14.4% annually if they aren't used to buy additional units.

Foolish takeaway

While there is no guarantee that future returns will be the same as they have been historically, that demonstrates just how effectively Dream Global allows investors to access the power of compounding and accelerate wealth creation.

The best vehicle for holding such an investment is a Tax-Free Savings Account (TFSA) because of its tax-sheltered nature, meaning that all distributions and capital gains are tax free. If you'd invested your 2019 $6,000 TFSA contribution in Dream Global, added another $6,000 annually, and reinvested all distributions, you would have $62,396 in five years, assuming the REIT continues to perform as it has historically.

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