TFSA Investors: Earn $7,000 of Tax-Free Dividends a Year

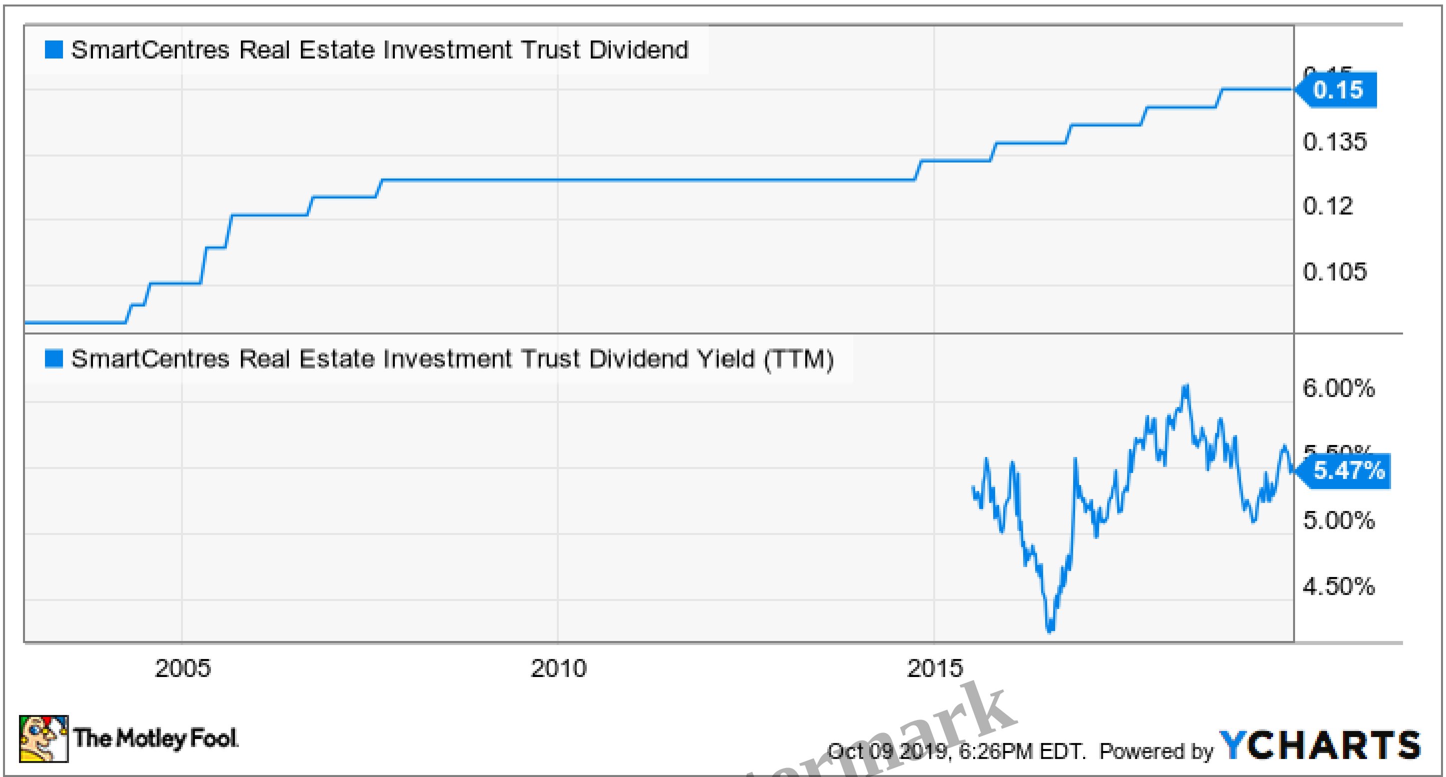
Description

If you've saved and contributed in full to your TFSA every year since its inception in 2009 and earned the average stock market return of about 7% per year, you would be sitting on a TFSA account of about $128,000.

If you invest $128,000 in the Canadian market today, you'll get a yield of 2.8% or $3,584 a year. That's a good amount of income, but you can do so much better!

Right now, you can invest in **SmartCentres REIT** (TSX:SRU.UN) for a safe yield of 5.5% or $7,000 a year. You'll be exhilarated to know that the quality REIT is decently valued. Moreover, it has growth potential from intensification opportunities.

The REIT's leverage profile has also generally improved from the end of 2016, as the debt to adjusted EBITDA declined from 8.4 times to 7.8 times, the interest coverage expanded from 3.1 times to 3.3 times, and the weighted average interest rate fell from 3.72% to 3.69%.



SRU.UN Dividend data by YCharts. The dividend and yield history of SRU.UN.

SmartCentres has high occupancy and stable rental income

The Canadian retail REIT has 157 properties across 34.4 million square feet with an industry-leading average occupancy of 98%. Its occupancy is high because a grocery or pharmacy is anchored at all its sites and high-quality companies like **Walmart**, **Canadian Tire**, **TJX**, and **Lowe's** are among its top tenants. The portfolio has an average lease term of about five years (more than four years when excluding Walmart).

The REIT generates nearly $784 million in annual rent, including about 25% from Walmart, its top tenant, and 42% from its top six tenants.

Growth

SmartCentres REIT's three-year rental revenue growth and funds-from-operations per unit growth are 5.7% and 2.8%, respectively. Thanks to this growth, it has reduced its payout ratio to about 80% despite achieving cash distribution growth of about 3% annually in the last few years.

Furthermore, as of the end of the second quarter, SmartCentres identified intensification opportunities in 94 properties (61 in Ontario and 20 in Quebec), which translate to 256 development projects across different asset types, including apartment, office, senior housing, self-storage facility, hotel, condominium, or townhouses. Another 63 properties are under review for intensifying potential.

With an in-house development team focused on intensification, SmartCentres can make excellent profits from the project pipeline. 71 of these projects are active and 34 are already underway!

Foolish takeaway

Now's a good time to secure a juicy 5.5% yield from well-valued **SmartCentres REIT** (TSX:SRU.UN) in your TFSA for tremendous tax-free income. What's more, the REIT will likely increase its payout in the future with the many growth opportunities from intensification on top of its rental revenue growth.

Rather than putting your entire TFSA portfolio in SmartCentres, it's a better idea to buy a bunch of quality dividend-growth stocks to diversify your tax-free income stream. If you make a plan and diligently save and invest, you can even retire way earlier than you think!

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