TFSA Users: $10,000 in This 12.58% Dividend Stock Pays $1,258/Year

Description

TFSA users welcome every opportunity to earn an incremental income to boost the account's balance. **American Hotel Income Properties** (TSX:HOT.UN), or AHIP is one of the hottest dividend stocks on the **TSX**. This REIT pays a 12.58% dividend, which translates to an annual payout of $1,258 on a $10,000 investment.

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Annual dividends are insignificant in the short-term but could be substantial over long periods, especially with higher investment amounts. A $50,000 investment in AHIP, for example, could be worth $534,804 in 20 years, assuming the yield stays the same for the entire period.

Furthermore, your $100,000 TFSA balance could top a cool million in two decades and serve as your nest egg come retirement — that's the beauty of investing in dividend stocks like AHIP. The yield enables you to gauge or measure your earnings within a specified period.

Gain exposure to real estate

REIT stocks are great alternatives to purchasing real estate properties directly. Apart from the more substantial capital requirement, transaction costs are high when you decide to sell and cash in on your hard asset.

Since its introduction in the 1960s, investors buy REIT stocks to gain exposure to the real estate sector and have a balanced investment portfolio. Similar to other REITs, AHIP is traded freely on the TSX like regular stocks; you can buy or sell anytime.

However, AHIP is also an excellent long-term hold provided the REIT can sustain paying high-dividends. This $530.4 million seem capable of paying shareholders the yield they expect because of the niche market in which it operates. The secondary U.S. hotel industry is AHIP's captive market.

The select-service hotels' tenants that AHIP owns and operates will drive the REIT's steady growth in the coming years. Expansion opportunities are also present, as AHIP knows that select-service hotels in America are multiple-demand generators. About 90% of development projects are in the secondary markets.

Weigh the positives and negatives

It would be foolish to pass up AHIP if there are no future risks. But as an investor, you'd be reckless if you failed to consider the negatives. Some market analysts sound off alarm bells. AHIP has been struggling lately to increase profits and generate stable cash flows and is paying more dividends than the actual cash flow.

The red flag for AHIP is the threat of a dividend cut should the REIT fail to make profits moving forward consistently. Your dream to earn big bucks could turn into a nightmarish situation.

However, AHIP might turn the tide once it moves to the "secondary metropolitan markets," which is one level higher than its niche market. The plan is to operate in U.S. cities in which there is a steady demand for hotel rooms. Although rates are higher, business travellers would pick these hotels over economy hotels.

TFSA user's dividend stock

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TFSA users have the flexibility to diversify and limit exposure in any asset class, including REITs. With AHIP, you don't need a lot of money to invest in the stock.

For $6.77 per share at writing, you gain exposure to the real estate sector and receive outsized gains from the high dividend. Only a dividend cut can eat up on your potential returns.

Nevertheless, AHIP allows you to earn the incremental income you need to grow your TFSA balance.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:HOT.UN (American Hotel Income Properties REIT LP)

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1. Business Insider
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