TFSA Investors: $63,500 in This Stock Pays $336 Every Month

Description

Many people are determined to turn their TFSAs into passive income machines, creating a tax-free stream of income that can pay for bills, help fund an early retirement, or that just gets reinvested into new investing opportunities.

That's the beauty of passive income. The possibilities are endless.

One issue with rallying stock markets is it's harder to turn your capital into income. Yields go down as stocks go up. It's great for folks who already own these companies but it's terrible for people who are just looking to get in.

Let's take a closer look at one REIT that hasn't participated in the rally lately, a stock that yields a robust 6.4%. That's enough to turn a $63,500 contribution to your tax free savings account into a passive income stream worth $336 per month.

A transforming company

H&R REIT (TSX:HR.UN) is one of North America's largest landlords. The company's portfolio consists of office, retail, industrial, and residential properties collectively worth more than $14 billion and spanning more than 41 million square feet in gross leasable space.

The company has been focusing on expansion into the United States lately, bolstering its residential property division.

Similar to many other REITs, H&R is in the middle of a big redevelopment program. It is building apartments in markets like New York City, Miami, Long Beach, San Francisco, and Seattle, with developments ranging from being nearly completed to being in just the planning stages.

This is just the latest part of H&R's focus on apartments in the United States; that part of the portfolio has expanded to more than 10,000 units, primarily located in more southern states.

The company isn't just pushing its residential portfolio in the United States. It recently announced a series of redevelopment projects are planned for some of its assets in the Toronto market, adding a total of more than 1,500 apartments in prime locations to the market. Many of these apartments would be geared toward families, too.

To help pay for these projects, H&R is selling off some non-core assets. Buyers are usually partners on the project, which makes the selling process relatively painless.

Unfortunately, with these assets heading out the door, earnings have also taken a slight hit. This has pushed shares lower.

In its most recent quarterly results, H&R posted $281 million in total rents, which was a 1.6% decrease compared to the same quarter last year.

Operating income fell 0.6%, too. Investors were also spooked by some unexpected vacancies, which also contributed to the somewhat lackluster results.

Management was quick to reassure the market by telling investors the vacancies were only temporary, but it wasn't enough to stop the recent sell-off.

A passive income machine

Investors shouldn't sweat H&R stock's recent weakness. This is a solid company poised to continue delivering steady income for decades to come, and represents the first time in months that shares are on sale. It's a great time to buy.

If you took $63,500 — which happens to be the maximum you can contribute to a TFSA — and plunked the whole investment into H&R shares, you'd immediately generate an extra $336 in monthly passive income. That's a decent chunk of change.

If you wanted to grow that income, it would be as simple as reinvesting it back into additional H&R shares.

You'd generate 6.4% annual growth by making that one seemingly minor decision. It would be enough to increase that income stream to $458 monthly in just five years and $624 per month by year 10.

After 20 years of continuous dividend reinvestment, you'd increase your income stream to $1,161 per month. Isn't compound interest amazing?

The bottom line

H&R is an excellent investment to make if you're looking for sustainable passive income. Shares have a conservative payout ratio of under 80%, the stock is approximately 15% undervalued, and the company's expansion program should start contributing to the bottom line in 2020 and 2021.

If you take those dividends and reinvest them in more H&R shares, you'll really supercharge the compounding process. This should be enough to create a mammoth passive income stream by the time you retire. What's more exciting than that?

CATEGORY

1. Dividend Stocks
2. Investing

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nelsonpsmith