



Invest \$6,000 Tax Free! Consider This Stock for Your 2020 TFSA Contribution

Description

At the onset of a new year and a new decade, it is always a great idea to take time to reflect, plan, and be thankful. You may be thankful for good relationships, good jobs, good health, and for the future to come. Why not be thankful for the Tax-Free Savings Account (TFSA)?

Relatively unknown to many Canadians, the TFSA is available for free through any major bank. It allows Canadians to invest and grow their cash completely tax free!

Ever since 2009, the government has given Canadians a wonderful New Year's gift: the gift of more contribution space. In 2020, they increased that contribution space by \$6,000, allowing you to have contributed a cumulative total of \$69,500. There are some specific rules related to the TFSA (withdrawals, investor eligibility, and investment vehicles), so talk with your banking advisor before creating an account.

European Residential REIT

With the possibility of investing a new \$6,000 into your TFSA, why not consider putting it to work in **European Residential REIT** ([TSX:ERE.UN](#)), also known as ERES. In March 2019, **Canadian Apartment REIT** basically spun out its portfolio of Dutch multi-residential properties to create ERES. It now owns a portfolio of 131 multi-family properties that total 5,632 suites across the Netherlands. ERES is the first Canadian-listed REIT that singularly focuses on multi-residential properties in continental Europe. ERES contains all the elements that merit it a place in your TFSA investment portfolio: growth, diversification, and income.

Growth

ERES began with portfolio of 2,091 multi-residential suites. In under a year, it has not only doubled the size of its portfolio, but it has also diversified it geographically across the Netherlands. By partnering with CAPREIT (which owns about 66% of ERES), ERES has a meaningful pipeline of opportunities across the Netherlands and Europe. There is limited institutional ownership of multi-family properties in

Europe, so ERES stands to grow from the opportunity to consolidate the sector.

ERES also benefits from CAPREIT's [proven management platform](#). Its experienced, local management team has established economies of scale that reduce costs, generate operational efficiencies, and develop meaningful, organic rent growth. When tenants vacate units, management is able to upgrade/improve the units and "liberalize" them from rent-control limits. This can create significant upside in futures rents achieved.

ERES has already demonstrated the effectiveness of this strategy. For the first nine months of 2019, ERES increased NOI margins by 530 basis points (from 71.1% to 76.4%) and increased FFO/unit and AFFO/unit returns, respectively, by 18% and 3%.

Diversification

While I believe [North American REITs still have growth potential](#), it never hurts to spread some of your portfolio exposure to a different region of the world. There are particular benefits to investing in European real estate. European interest rates are at all-time lows. ERES is able to garner financing for present and new properties at very attractive rates (between 1% and 2.%) and harvest attractive yield spreads of 2.-3%.

In addition, the Netherlands is a great destination for investing in multi-family residential. With limited availability of land, high costs of living, and one of the highest population densities in the world (508 people per square km), many residents have no choice but to rent housing for life. This ensures long-term demand for ERES's real estate portfolio.

Income

ERES yields 3.27%, which means an investment of \$6,000 would yield you \$196.20 per year. Although this sum may not seem overly exciting, the AFFO payout ratio for the previous nine months stood at 75.4%. Management targets an AFFO payout target of 80-90% which suggests there is room to grow the distribution. Its debt is manageable at 50% debt to equity, and I believe it should be able to achieve longterm distribution growth as long as new acquisitions continue to be accretive.

The bottom line

The stock is not cheap, trading at approximately 26 times price/AFFO compared to European peers at 24 times. Also it operates in euros, so there is some currency risk related to global diversification. Despite this, ERES deserves a place in your TFSA portfolio. It has long-term growth opportunities, favorable demographic trends, geographic diversification, and a nice distribution to pad any market volatility.

When investing your 2020 TFSA contribution, definitely consider a place for ERES REIT in your portfolio!

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