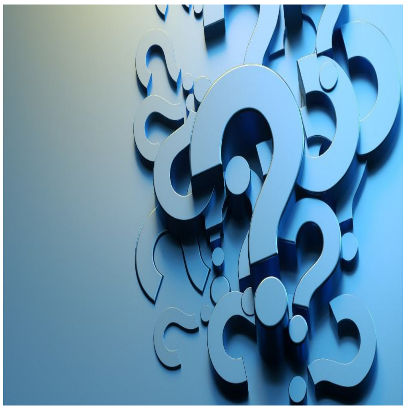

TFSA: Is It Time to Buy This Monster 11% Dividend Yield in the Office REIT Space?

Description

Your Tax-Free Savings Account (TFSA) isn't just a savings account or investment vehicle. It can be used as a source of passive income that's completely free of the effects of taxation. If you play by the rules of TFSA usage, you too can transform your TFSA into an income stream to give yourself a raise or finance your retirement.

The 4% rule is boring, but it saves those unwilling to put in the homework from a world of pain

When it comes to TFSA-based passive income portfolios, most folks subscribe to the "4% rule," which may be outdated given how high the yield bar has been raised in recent months amid the coronavirus-induced turmoil. While there's no shame in subscribing to the arbitrary rule of thumb when it comes to your TFSA's dividend yield, it makes a tonne of sense to reach for a bit more yield with some of the monster dividends that have seen their yields swell.

Warren Buffett once said that the act of "reaching for yield is stupid but very human" and that he understands why some would choose to do so. If you're chasing dividend yield without putting in the proper due diligence beforehand, then Warren Buffett is 100% right.

It's foolish (that's a lower-case "f") to reach for some of the double-digit yields out there. Without a careful analysis of the balance sheet and a firm's financial flexibility amid this crisis, you'll just be asking for the one-two hit of a dividend (or distribution) cut alongside potentially sizeable downside.

A monster 11% dividend yield that may actually survive the coronavirus crisis

The act of pulling the trigger on a monster dividend like the 11%-yielding distribution offered by **Inovalis REIT** (TSX:INO.UN) may seem reckless through the eyes of an income investor who subscribes to the 4% rule.

While the sheer magnitude of Inovalis's distribution is intimidating, I don't think investors should shun the name with the assumption that the distribution will be slashed by 50% or more. Shares of the REIT have been under pressure in recent months, but that's not the only reason why Inovalis sports a monster-sized dividend.

Believe it or not, Inovalis's ridiculously high dividend yield is by design. Back when INO.UN shares were around their all-time highs; the REIT sported a yield around the 8% mark. While the distribution was sustainable, the bountiful nature of the distribution came at the cost of negligible amounts of upside over the years.

Most equities or REITs that sport double-digit dividend yields are distressed, with share prices that have fallen well over half their value. When it comes to Inovalis REIT, shares have pulled back around 30% from pre-pandemic levels.

Most Canadian REITs are currently down around 25-30% from their all-time highs, so there's nothing sinister about Inovalis's colossal yield.

Got room in your TFSA? Inovalis REIT's 11% dividend yield is compelling

While no 11% yield will ever be truly safe, Inovalis likely offers the most secure payout of all **TSX**-traded names with yields north of the 10% mark. The European-focused REIT owns sought-after properties within the urban parts of France and Germany, two markets that have been walloped by COVID-19.

Once the pandemic passes and workforces head back to the office, Inovalis will likely be right back at all-time highs and the demand for its office space will be at if not much higher than levels hit in 2019.

Office leases are longer-term in nature, and with Inovalis's management stating that it was facing "near-normal rent collection" in the second quarter, I wouldn't hesitate to recommend the 11%-yielding distribution of Inovalis to anyone willing to place a contrarian long-term bet on the recovery of European office real estate.

Foolish takeaway

If you've yet to put your latest TFSA contribution to work, you may wish to stash shares of Inovalis REIT in the "risk-on" part of your barbell portfolio, so you'll be able to have a shot at locking in the massive dividend yield alongside potentially outsized gains in a slow and steady return to normalcy.

CATEGORY

1. Coronavirus
2. Dividend Stocks
3. Investing
4. Stocks for Beginners

TICKERS GLOBAL

1. TSX:INO.UN (Inovalis Real Estate Investment Trust)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Coronavirus
2. Dividend Stocks
3. Investing
4. Stocks for Beginners

Date
2025/07/04
Date Created
2020/07/02
Author
joefrenette