Stash This REIT in Your TFSA for Income the CRA Can’t Tax!

Description

Passive income or not, the Canada Revenue Agency (CRA) wants its slice of the pie. If you leverage the power of your Tax-Free Savings Account (TFSA), though, you can create an income stream that the CRA won’t be able to tax, assuming that you play by all the rules!

Following the devastating COVID-19 crash, many REITs are trading at depressed levels, with valuations that make many of them the cheapest they’ve been since the depths of the Great Financial Crisis.

Deep value in the REIT space for TFSA users

If you backed up the truck on those hideous-looking REITs after they collapsed during the market crash just over a dozen years ago, you punched yourself a ticket to massive capital gains as the stock market bounced pounced on the back of a new bull market.

Some TFSA investors who went against the grain locked in bountiful yields. Those contrarians who stuck by REITs as they slashed their distribution eventually saw payouts hiked again, and real estate became the place to be again for income-seeking retirees.

Today, the real estate sector is one of the most unattractive places to be. Office, retail, and residential REITs have taken a brunt of the damage, with share prices that are multitudes lower than they were just a year ago. While the COVID crisis is vastly different from the Great Financial Crisis, there’s immense value to be had in the REIT space for TFSA investors who seek big monthly income that the CRA won’t tax.

Without further ado, consider **Canadian Apartment Properties REIT** (TSX:CAR.UN) (CAPREIT for short), an oversold growth REIT that contrarian TFSA investors should be thinking about loading up on while they’re still down and out.

CAPREIT: Deep value, a bountiful 3% yield, and long-term

momentum

CAPREIT is a residential real estate play whose share chart looks more like a stock than a REIT. Capital gains are the reason to own the growth REIT over the long run. After the recent coronavirus pullback, the name now offers a bountiful 3% yield, which I view as a nice bonus for those willing to go against the grain in this unprecedented crisis.

At the time of writing, CAPREIT shares are down 25% from its pre-pandemic highs, as real estate rent collection rates have been facing pressure amid this socio-economic and public health crisis. CAPREIT's rent collection rate has been relatively resilient, although the REIT did pull the breaks on some of its growth projects.

But as COVID abates, CAPREIT will likely be back to firing on all cylinders, as it did in 2019. For those who are looking for post-pandemic upside beyond 2021, CAPREIT is the place to be right now.

Foolish takeaway for TFSA investors

Shares of CAR.UN are historically cheap and could prove to be severely undervalued once we look back at this pandemic in two years from now. TD Securities recently slapped an Action List Buy rating on the name, and I find it hard to argue against the move, as shares are close to the cheapest they've been since the last crisis.

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