Beyond CERB: How Canadians Can Leverage Their TFSAs to Produce Monthly Income

Description

The CRA's CERB (Canada Emergency Response Benefit) was an unprecedented response to an unprecedented crisis. The program did its job in responding to help those affected by the COVID-induced economic wreckage. And while the CERB is transitioning to a new form of Employment Insurance (EI), many Canadians are likely feeling anxious about the transition and how long new, evolving benefit programs will last in the face of a worsening second wave of COVID-19 outbreaks.

If you're like many Canadians who've made contributions to the TFSA (Tax-Free Savings Account) over the past decade, you've probably also noticed that your tax-free savings have fallen to now negligible amounts, thanks in part to recent interest rate cuts.

This era of rock-bottom rates and near-negligible interest is probably sticking around through 2023 and perhaps even longer, depending on how much worse this crisis can get. With liquidity being pumped into the market, TFSA savers also stand to get hit with rising inflation, which could appear at some point over the next few years.

Near-zero interest and the threat of losing purchasing power to inflation make it hard for TFSA savers who have also been laid off or furloughed due to the pandemic. Even with increased volatility, there's never been a better time to ditch savings for investments. After the 2020 global stock market crash, there are ample bargains out there, with dividends and distributions that can help former CERB users beef up their monthly incomes.

A Smart REIT for a 9% yield

This piece will have a look at one of my favourite opportunities in the battered REIT (real estate investment trust) space in **SmartCentres REIT** (TSX:SRU.UN), a retail real estate play that I view as a baby that's been unfairly thrown out with the bathwater.

Undoubtedly, SmartCentres is a play on the shopping mall, which was under immense pressure even before COVID-19 hit. With so much negativity surrounding retail, real estate, and, more specifically, retail real estate, I think we've reached a point where even the slightest evidence in reversion in mean demand for retail space is enough to move the needle in a beaten-up REIT like SmartCentres.

You could say the same about any retail REIT, but what sets SmartCentres apart from the pack is its favourable mix of "essential" tenants that makes its funds from operations (FFO) more resilient in the face of a second wave of COVID-induced lockdowns. Moreover, SmartCentres's longer-term growth plan is to diversify away from retail to mixed-use properties that combine the perfect blend of residential and retail real estate.

While SmartCentres is a long way from becoming a truly diversified REIT, I think over the next decade that projects, which have since been slowed by the COVID crisis, will allow SmartCentres to command a higher multiple. Still, over the next few years, SmartCentres will remain a retail-centric play.

With its anchor tenant **Wal-Mart**, SmartCentres is ready for another round in the ring with Mr. Market. At $20 and change, shares sport a bountiful 9% yield. I view the distribution as relatively safe but wouldn't rule out a modest reduction at some point over the next year, if we are, in fact, due for a second wave that's profoundly worse than the first. Rent collection rates could take several steps back, but compared to the likes of many other mall REITs out there, Smart won't be put in a position to shock investors with a substantial distribution cut that could trigger a further sell-off in shares.

Foolish takeaway for Canadians looking beyond CERB for their passive income

If you're a former CERB user who wants value and passive income, SmartCentres is one of my top picks in the REIT space. You'll face volatility en route to normalcy, but the potential rewards, I believe, are well worth the roller-coaster ride you'll have to endure.

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joefrenette