



## TFSA Income Investors: 1 Beaten-Down REIT Set to Soar Into 2021

### Description

The year 2020 has been a very trying period for several Canadian real estate investment trusts (REITs) due to the ravaging COVID-19 pandemic. Poor rent collections and a feared decline in occupancy rates, especially on retail properties during lockdowns, scared investors to the exits. Several beaten-down REIT are available for grabs on the TSX today, yet the asset class could soon heat up as news of potential vaccines flood in November.

Investor hopes for a coronavirus vaccine are increasing in November with reports that **Pfizer** and [Moderna's vaccine](#) candidates are over 90% effective in protecting humans against the troublesome pathogen.

### Why buy beaten-down high-yield REITs in a TFSA?

One of the best ways to earn passive income in a TFSA is to invest in high-yield, dividend-paying stocks. The best yields lie in the real estate sector right now. But they could be gone soon as the vaccine trade takes hold.

Canadian REITs were created to offer investors an opportunity to pool up capital resources and employ leverage to invest in real estate assets for stable rental income generation. The trusts are exempt from income taxes, as long as they pay out the majority (90%) of their annual income to investors (unitholders).

REITs are famous for their high-income distribution yields. Yields generally shot up on most beaten-down Canadian REITs during the pandemic. This is true, even on some trusts that were forced to cut their distributions during the turmoil.

Stashing REITs in a tax-sheltered TFSA account means that distributed income will escape CRA taxes forever. A 10% annual yield exits on one **Morguard** managed trust today.

## A closer look at beaten-down Morguard REIT

**Morguard Real Estate Investment Trust** ([TSX:MRT.UN](#)) units traded over 6% higher early on Monday upon news of Moderna's vaccine success. The beaten-down REIT is one great value opportunity for TFSA investors today.

Morguard REIT owns a \$2.6 billion portfolio of 47 retail, office, and industrial properties in Canada comprising 8.3 million square feet of leasable area.

MRT's units are down over 60% year to date for a good reason. The trust has significant exposure to enclosed shopping malls, a real estate segment hardest hit by the pandemic. Enclosed malls remain deserted, as shoppers fear contracting the coronavirus in confined spaces. Investors expected the worst to happen to its cash flows and balance sheet. This is understandable considering that the trust gets about 41% of its revenue from enclosed-mall tenants,

Revenue during the third quarter was down 8.7% from a year ago. This wasn't too bad considering ongoing circumstances. Net operating income declined 21.7% year over year and funds from operations (FFO) were down 33.8% to \$14.4 million last quarter. Adjusted funds from operations (AFFO) fell by 27.5% to \$11.5 million during the most recent quarter. Trustees decided to cut the monthly distribution by 50% on April 30 to preserve liquidity in the face of extreme uncertainty.

Encouragingly though, portfolio occupancy rates remained resilient at 93% by September 30 this year. Rent collections improved from 76% for the second quarter to an average of 86% for the third quarter. Collections for October were much better at 87% by October 27.

## Lock in a juicy yield and enjoy capital gains

Most noteworthy, the current monthly distribution was well covered during the last quarter. The AFFO payout rate was just 66.7% for the third quarter. This was a significant improvement from a 100% payout rate during a previous quarter. I wouldn't expect a further distribution cut over the next year.

Analysts expect the distribution to remain flat for some time as the trust recovers from a perfect storm. This means you can lock in a 10% yield on Morguard REIT and expect capital growth as a bonus during the coming recovery.

Units currently trade at a 40% discount to their net asset value. It's reasonable to expect a speedy recovery once a COVID-19 vaccine becomes available in 2021 and the masses feel free to visit their favourite malls again. A closer peer is even [expected to double](#).

### CATEGORY

1. Dividend Stocks
2. Investing

### TICKERS GLOBAL

1. TSX:MRT.UN (Morguard Real Estate Investment Trust)

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