TFSA Income Investors: A Battered TSX REIT to Buy Right Now

Description

TFSA income investors will have another $6,000 to put to work once the page is turned on this brutal year. If you're a retiree who's concentrated on high-yield REITs, you may have seen your passive-income stream take a hit due to COVID-induced distribution cuts. With many REITs sitting a country mile away from their pre-pandemic highs, I'd urge passive-income investors to consider using a portion of their 2021 TFSA contribution on some of the more battered REITs on the **TSX Index**.

While distribution cuts have become the norm in the hardest-hit REIT sub-industries (think retail and office real estate), I don't think that investors should avoid such hard-hit areas as we inch closer to a post-pandemic world. Once this horrific pandemic ends, we're likely to see rent-collection rates normalize across the board. Moreover, I also think we're due to witness a potential reversion in mean demand for such property types (retail and office) that have fallen drastically out of favour in the era of COVID-19.

A "Smart" option for TFSA income investors

With that, I expect substantial capital appreciation (or a correction to the upside) in some of the most battered of TSX REITs, such as retail-centric play **SmartCentres REIT** (TSX:SRU.UN), over the next 18 months. The REITs that have been forced to reduce their distributions (think **H&R REIT**) may also be in for significant payout hikes proportional to the magnitude of COVID-induced reductions over the coming years after vaccines are administered, and things return to normal.

In this piece, we'll have a closer look at SmartCentres REIT, one of my favourite value and income opportunities on the TSX. Shares of SmartCentres REIT surged in November alongside the broader basket of COVID recovery plays but have since pulled back to just under $23 after vaccine news had lost its potency in moving the markets. With shares sporting an 8.1% yield again, I think TFSA passive-income investors have a lot to gain by going against the grain with the bruised retail REIT that now looks far less risky than it did back in the depths of October.

Yes, SmartCentres has an absurdly large yield that looks to be swelling by the day, but it’s far safer than it looks amid this worsening second wave, given the calibre of SmartREIT’s tenants.

“For investors who were willing to look under the hood, it should have become more apparent that SmartCentres was one of the retail REITs that was likely to survive the crisis with its distribution intact,” I wrote in a prior piece. “SmartCentres REIT wasn’t just another mall play that would serve up its shareholders with a significant distribution reduction. The REIT housed many essential retailers, including the likes of **Wal-Mart**, which played a major role in keeping SmartCentres’s funds from operations above water amid coronavirus lockdowns.”

Foolish takeaway on SmartCentres REIT

If you’re not buying the “death-of-the-mall” thesis and think people longing for social interaction will be back to the malls after this pandemic is over, I’d back up the truck on shares of SmartCentres REIT while Mr. Market pulls the brakes on the bruised COVID recovery plays. While the mutated strain of COVID-19 may be a cause for concern, pundits do not expect it to impact vaccine efficacy rates drastically. As such, I’d encourage investors to take advantage of an opportunity in some of the most unloved areas of the Canadian real estate scene.

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Author
joefrenette