TFSA Contribution $6,000: Here's the Passive Income Play I Just Bought

Description

If you've yet to contribute your 2021 Tax-Free Savings Account (TFSA) contribution of $6,000, now is as good a time as any. While the stock market may be viewed as expensive by some, I still see ample opportunity in the beaten-up areas of the market. In this piece, we'll have a closer look at **SmartCentres REIT** (TSX:SRU.UN), a cheap 7.7% yielder that I think allows one a shot to lock-in a swollen distribution for your TFSA alongside a shot at outsized gains once the economy reopens.

Not all retail REITs are built the same

For those unfamiliar with the name, it's a retail REIT behind the strip malls, many of which are anchored by **Wal-Mart**. SmartREITs shares imploded back in the February and March sell-off but have bounced back modestly, as rent collection wasn't hit hard enough to warrant a reduction to the bountiful distribution.

Not only am I a big fan of most of Smart's tenants (the REIT houses many pandemic-resilient essential retailers), but I believe Wal-Mart is the main attraction that's able to drive foot traffic through and after this horrific pandemic ends. Sure, the popular opinion on the Street is that the mall REITs are doomed and that brick-and-mortar retail is to take a backseat to the up-and-coming e-commerce firms, but I think such negative sentiment is a tad overblown.

The death of the shopping mall thesis is nothing new. It's just been strengthened by the horrific pandemic. With effective vaccines that could end the pandemic in the second half of 2021, we could witness some reversion to the mean when it comes to shopping centres, especially those with high-quality tenants like SmartCentres.

A smart pick for your TFSA income fund in 2021

I'll admit, my main reason for accumulating shares of SmartCentres REIT is the juicy payout, which was just north of 8% when I bought for my TFSA. I figured that it was close to the safest 8% yield I'd find on the **TSX,** given the mall REIT's distinct advantages it had over the competition. Moreover, I was impressed with the REIT's ability to overcome harsh COVID-19 pressures that wreaked havoc on many real estate plays.

As fellow Fool contributor Kay Ng put it, Smart's cash flows were robust enough to support the bountiful distribution through the worst of the pandemic last year.

SmartCentres' adjusted funds from operations (FFO) payout ratio was just under 89%, only about 1.5% higher than in 2019. So, there's a good chance it can maintain its currently high yield of 7.6%, as long as the pandemic doesn't trigger another severe economic lockdown in Canada," Kay wrote in a stellar piece covering three Canadian retail REITs.

While the payout was stretched modestly, it wasn't stretched to its breaking point. And although the threat of further lockdowns could cause improving rent collection rates to backtrack, I find it highly unlikely that the distribution is at risk in the likeliest scenario where only partial lockdowns are imposed.

With a mutated variant of COVID-19 out there, though, you can't rule out a worst-case scenario that would bring forth full lockdowns. If such a scenario were to happen, I would expect the distribution could be trimmed. I would view any such distribution cuts as temporary, however.

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