Give Your TFSA Income Stream a Raise! 2 Top TSX REITs to Buy Right Now

Description

Your Tax-Free Savings Account (TFSA) is an invaluable tool that has many purposes. You can use it as a passive income stream, a vehicle to grow your wealth through capital gains over the long term or you as a mere store for cash and cash equivalents, Guaranteed Investment Certificates, long duration bonds, or any other unrewarding "risk-free" fixed-maturity security.

One of my favourite uses of the untaxable account is as an income stream for high-yield REITs. In this piece, we'll look at two of my favourites to stash in your TFSA income stream.

SmartCentres REIT

SmartCentres REIT (TSX:SRU.UN) is a retail property play behind popular Canadian strip malls. Yes, I know, retail REITs are among the most brutal places to be amid this pandemic. That said, I think there are opportunities within every asset class that don't deserve to be shunned alongside their less-than-stellar peers.

I loaded up on SmartCentres REIT for my TFSA income stream when the stock market crashed last February and March. While rent collection was under considerable pressure through the worst of the first phases of the crisis, I had tremendous confidence in Smart's tenant base, most notably with its top tenant in **Walmart**, which I thought would weather the pandemic well, as consumers flocked to hoard supplies ahead of lockdown.

Today, SmartCentres' 8% yield has compressed to just below 7%. Yet, I still think shares of the REIT are severely undervalued, given rent collection is nearly back to normal. Having demonstrated its resilience through the worst of the pandemic, I think SmartCentres is also a wonderful buy should ongoing vaccine rollouts fail to prevent a third COVID-19 wave in Canada.

H&R REIT

H&R REIT (TSX:HR.UN) is a diversified Canadian REIT with a larger weight toward retail and office real estate, two of the ugliest places to be these days. Alongside almost everything else, H&R REIT collapsed, shedding over half of its value in last year's crash. Concerns over a permanent destruction in office space demand in the post-COVID environment have weighed heavily on the REIT's recovery.

Down over 37% from its high, the REIT is a top buy for any TFSA income stream. While the distribution may have been cut amid pressures, the REIT will reinstate its distribution within the next 18 months, as COVID-19 headwinds fade and we witness some reversion in mean demand for office and retail space.

I've noted previously that H&R REIT was likely to come surging back on any such modest mean reversion. Today, H&R REIT yields just 4.7%, a relatively unremarkable payout until you consider the ever-increasing likelihood that the REIT could hike its distribution by a generous amount once we're out of this horrific pandemic.

Fellow Fool Kay Ng praised H&R REIT for its conservative payout: "Based on the more conservative adjusted FFO (AFFO) of $1.27 per unit, its payout ratio was 54%. Normally, its payout ratio is in the 70% range. Therefore, currently, it has a big margin of safety to protect its dividend."

As usual, Kay is spot on. The distribution has room to run, and I think it will once adjusted funds from operations recover further.

My takeaway? Stash the undervalued REIT in your TFSA income stream before the price goes up and the yield falls.

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Date
2025/07/02
Date Created

2021/03/11
Author
joefrenette