Passive Income: 1 Cheap REIT for Tax-Free Monthly Income in Your TFSA

Description

Being a landlord isn't truly passive income, unless you hire someone to manage your properties. You can be a passive landlord and earn passive income every month immediately by buying and holding real estate investment trusts (REITs). If you hold these units in your Tax-Free Savings Account (TFSA), you get to enjoy the passive income tax free!

Here's a cheap REIT for your consideration.

Put Chartwell Retirement Residences in your TFSA

Chartwell Retirement Residences (TSX:CSH.UN) owns and operates a range of seniors housing communities. It is the largest operator in Canada with about 200 quality retirement communities in four of the most populous provinces. Geographically, it owns about 52% of its portfolio in Ontario, 30% in Quebec, 10% in British Columbia, and 8% in Alberta. And it is a leader in all these markets.

Analysts like the cheap monthly dividend payer

Christine Poole, the CEO and managing director at GlobeInvest Capital Management, likes the space (because of the demographics) and favours Chartwell due to its portfolio mix. The seniors housing leader is a great income stock to own to benefit from a growing aging population, as 91% of its net operating income comes from private retirement homes (and only 9% originates from long-term-care homes).

Currently, the dividend stock remains depressed from the COVID-19 pandemic. It has corrected more than 17% from its 52-week high. Understandably, the business is still impacted by the pandemic with lower occupancy across all its markets and higher costs (pandemic related, utility, staffing, or insurance).

In the last quarter, it reported a funds-from-operations (FFO) decline of 10.7% versus the same period a year ago in 2020. Its third-quarter occupancy was 78.2%, down 83.2% from the same period a year ago. Year to date (YTD), its FFO fell 15.1% year over year. On a per-unit basis, its FFO declined by about 16%. Its YTD occupancy was 78.1%, down from 86% a year ago. Its occupancy should improve as the pandemic situation normalizes over time.

According to seven analysts, the cheap dividend stock has a 12-month upside potential of almost 25% from $11.35 per unit at this writing. While investors wait for the undervalued stock to rise in their TFSA, they can enjoy a 5.4% yield paid out in monthly dividends tax-free. Currently, Chartwell's annualized payout is $0.612 per unit. It is a Canadian Dividend Aristocrat that has maintained or increased its payout every year since 2011. Its five-year dividend-growth rate is 2.1%.

When investing in REITs…

Passive landlords need to beware of the difference between investing in REITs and physical real estate properties. REITs are stocks. The stock market will scream the changing REIT stock prices in your face. If your purpose is passive income, ignore the volatility other than buying more units when the stocks are cheap.

Currently, analysts think Chartwell Retirement Residences is cheap. Therefore, you can enjoy a juicy yield of 5.4% in your TFSA for tax-free passive income, while waiting for the cheap stock to normalize in value. In normal economic times, the REIT has traded at a multiple of 17. If so, an investment today could potentially return 44% over the next couple of years.

CATEGORY

1. Dividend Stocks
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1. TSX:CSH.UN (Chartwell Retirement Residences)

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