Boost Your TFSA Income With REITs, But Avoid 1 Sub-Sector for Now

Description

Many investors have grown fond of real estate investment trusts (REITs), because the asset class offers several benefits. You gain exposure to the real estate sector without a direct investment or actual purchase of physical properties. Besides the bite-sized cash outlay, you become a mock landlord of prime real estate.

Since REITs provide periodic cash flow streams like dividend stocks, they are ideal holdings in a Tax-Free Savings Account (TFSA). However, Canadian REITs took a beating during the global pandemic, posting a negative 20% overall return in 2020. Most of the large landlords have recovered since, although one sub-sector could take longer to get back to normal.

For TFSA investors, industrial REITs the best options to boost tax-free income in 2022. Meanwhile, avoid landlords of office spaces for now as vacancies remain high. Thus, between **Dream Office** (TSX:D.UN) and **Nexus** (TSX:NXR.UN), the latter is a better, more stable choice.

Rising vacancies

Dream Office is a prime premier office landlord, especially in downtown Toronto. The $1.18 billion REIT will present its full-year 2021 results next week, but **National Bank of Canada's** financial analyst Matt Kornack has lowered his rating for the stock already. Kornack said operating performance has deteriorated, and the REIT could sink deeper if vacancy keeps rising.

After the first three quarters in 2021, there were 29 active properties and one under development. The in-place occupancy rate (total portfolio) went down to 82.7% from 87.8% in the same period in 2020. In downtown Toronto, it fell to 88.2% from 96.7%. Also, net rental income and net income during the period dropped 5.2% and 21.3%, respectively.

In December 2021, Dream Office chairman and CEO Michael Cooper said a potentially delayed return to the office due to an imminent threat of the COVID-19 Omicron variant is a “non-issue.” CFO Jay Jiang added that the balance sheet remains solid with ample liquidity, and there’s very minimal financing risk in 2022.

Investors didn’t lose last year, as the REIT delivered a 30.2% total return. The current share price is $24.50 (-0.02% year to date), while the dividend yield is 4.08%.

Next pure-play industrial REIT

Nexus celebrated its first year on the TSX last February 4, 2022. Last year, the REIT was a big winner with its 59.8% total return. At $12.36 per share, the trailing one-year price return is 52.6%. If you invest today, the dividend offer is a generous 5.18%. You will earn $310.80 in tax-free income if you hold $6,000 worth of shares in your TFSA.

This $712.16 million REIT is keen on growing its industrial portfolio following a very active year. Nexus acquired 24 industrial properties in 2021 and will acquire more in 2022 and 2023, potentially including properties in the United States. Likewise, the high grading of the portfolio’s quality continues as the REIT grows.

Its CEO, Kelly Hanczyk, said the growth in 2021 and the planned further industrial acquisitions positions Nexus as Canada’s next pure-play industrial REIT. Last month, Hanczyk announced the intention to change the name to Nexus Industrial REIT.

Inflation hedge

Industrial REITs are ideal holdings in TFSAs to boost tax-free income. They are also effective hedges or protection against rising inflation.

CATEGORY

1. Dividend Stocks
2. Investing

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1. Editor's Choice

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