Passive Income + Value: A Cheap Canadian REIT to Scoop Up

Description

REITs can help you combat volatility while providing you with above-average yields to satisfy your income needs. If you're an older investor who's looking to lower your risk, it's in your best interest to up your TFSA's exposure to the REITs. Here's one winner to get you started: **CT REIT** (TSX:CRT.UN).

Canadian Tire (TSX:CTC.A), CT REIT's largest tenant, may be a wonderful Canadian retailer, but it's in the crosshairs of some pretty hungry e-commerce and foreign brick-and-mortar competitors. While the iconic Canadian retailer isn't going under any time soon, I believe the firm's ROEs will fall under pressure as management places bets on efforts that aim to win back the business that was lost to up-and-coming competitors.

As much as I love the Canadian Tire brand, it's tough to justify owning shares of a retail company that's getting disrupted, both online and offline. Margins will come under pressure, even if the company is able to keep store traffic up.

As such, I'd strongly urge investors to consider CT REIT instead. It's the perfect way to feast on the traffic going through Canadian Tire stores without the indigestion of margin-eroding competition. The REIT houses Canadian Tire (accounting for 93% of base minimum rent), as you may have guessed, but it has been making moves to diversify its rental stream.

CT REIT has a solid pipeline of developments, redevelopments, and intensifications that'll bolster AFFO growth over time. Over the past five years, CT REIT has posted a CAGR of just over 5%. As CT REIT reaps the rewards from Canadian Tire's slow and steady expansion while making moves to score non-Canadian Tire tenants, CT REIT could eventually evolve to become more of a mixed-use property play with Canadian Tire stores used as the primary anchor.

With an impressive 99.1% occupancy rate as of the latest quarter thanks to a 40-bps increase quarter over quarter due to the recent signing of a short-term lease, CT REIT looks to be one of the most robust retail REITs that money could buy.

At the time of writing, CT REIT sports a 5.3% distribution yield, which is about average when it comes to REITs. When you consider the AFFO-growth potential and the slight undervaluation (14 times

AFFO) relative to other retail REITs, the name looks that much more attractive for value-conscious income investors.

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TICKERS GLOBAL

1. TSX:CRT.UN (CT Real Estate Investment Trust)
2. TSX:CTC.A (Canadian Tire Corporation, Limited)

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