Retired Investors: This REIT Stock Provides Stable and Predictable Income

Description

Real estate stocks, commonly referred to as REITs, are supposedly a great way to generate stable and predictable income. In reality, that's not always the case.

Take **Slate Office REIT**, for example. It had been paying a $0.0625-per-share monthly dividend for years. In March, the payout was slashed by 50%.

However, **CT REIT** (TSX:CRT.UN) has paid out a reliable dividend for more than five years. Cash flows are expected to continue growing the payout for years to come. And based on its unique business model, there's little risk of a cut.

Here's why CT should be a core holding for any retirement account.

Put your eggs in this basket

They say not to put all of your eggs into one basket. Famed investor Warren Buffett disagrees. He says to put all of your eggs into one basket and to *watch* that basket carefully.

CT has adopted Buffett's approach in terms of customer concentration.

Other REITs focus on leasing out their properties to a variety of clients, sometimes numbering in the thousands. This creates a complex lease book full of churn and overlapping contracts. A downturn in a single sector, for example, can cause dozens of customers to flee, pushing occupancy rates lower.

These phenomena — which are more common than many REIT investors admit — often result in a dividend cut.

CT has sidestepped this issue by developing its properties around a single primary client: **Canadian Tire** (TSX:CTC.A).

With more than 500 locations, Canadian Tire is one of Canada's leading department stores. Since

1995, its stock price has increased by more than 1,000%. It has a bullet-proof balance sheet and a proven ability to both grow and retain existing storefronts.

CT owns more than 300 properties comprising 26 million square feet, nearly all of which are anchored by a Canadian Tire store. The partnership is so tight, in fact, that Canadian Tire is CT's largest investor, so you can set aside worries that the company will ditch its current landlord.

Here's why this stock wins

CT began trading in 2013. It's never missed a dividend payment since. Today, the yield is up to 5.4%.

Over the last five years, the company has increased its net asset value by 7.1% annually. This has allowed it to boost the dividend five times in five years.

With nearly a century-long history, Canadian Tire is about as good of a tenant as it gets. Canadian Tire has nearly 100% brand awareness in Canada, and more than 80% of Canadians shop there every year.

The average contract has roughly 11 years left, all of which should be renewed as long as the underlying stores are still in business.

Going forward, it's incredibly likely that CT will keep its strategy simple and straightforward: continue making long-term leases to its biggest customer and shareholder, all of which include built-in escalators to ensure the contract pricing remains competitive with the market.

With a small $1.4 billion market cap and a hyper-specialized business model, CT doesn't get a lot of attention, but for a retirement portfolio, this stock is as good as it gets.

Not only do you receive consistent, recession-resistant income, but if the stock is held is an RRSP or TFSA account, your dividends accrue tax-free.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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

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Author
rvanzo