RRSP Investors: This REIT Pays Out Bond-Like Dividends of 5%!

Description

For those looking to plan their 2020 RRSP contributions before the March 1 deadline, I've got one extremely high conviction pick in the REIT space right now. In my opinion, **CT REIT** (TSX:CRT.UN) is perhaps one of the best ways to get fixed income-like yields in the stock market. This Real Estate Investment Trust was spun off by **Canadian Tire** (TSX:CTC.A) in 2013, and since then, has performed very well. Units have given investors capital gains of approximately 50% over this time frame, with mid to high single-digit dividend yields (depending on when units were purchased).

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This is perhaps the best REIT for investors to own over the long-haul. Accordingly, this is my number one pick for Canadian investors looking to add real estate exposure to their RRSPs right now.

Business model as solid as it gets

The issue many investors have with real estate investment trusts (REITs) is how finicky tenants can be. One month they're paying their rent, and the next they're filing for bankruptcy. With economic challenges now hitting many businesses, REITs have bore the brunt of a lot of the anxiety of investors of late. Uncertainty with respect to rent collections has pushed many income-oriented investors away from REITs toward other sectors.

This is the beauty of owning CT REIT relative to its peers. This REIT is essentially underwritten by Canadian Tire's operations. Because this REIT was spun off by Canadian Tire, the vast majority of the real estate is anchored by Canadian Tire locations. Thus, unless investors think that Canadian Tire is likely to go under any time soon, rents are secured. The cash flows this REIT generates are supported by a very favorable contract with Canadian Tire. This allows for a wide margin of safety with respect to the quality of this REIT's cash flows.

The REIT's 5.2% dividend yield is also supported by a payout ratio around 80%. Those followingREITs know how low that is. REITs tend to pay out as close to 100% of their net income toshareholders, so this yield indicates there is substantial room for increases in the future. I think this issimply one of the safest and undervalued yields on the **TSX** right now, hands down.

Resilience is key

If you're buying a stock for defensiveness, resilience is a trait one will value. In this regard, CT REIT is a real winner.

It's not only me who feels this way. Fellow Fool contributor Joey Frenette has been a big-time bull on CT REIT for a long time. In a recent article, he opined: "Canadian Tire demonstrated tremendous resilience in the first wave of the pandemic and is likely to continue doing so in the current one. The retailer is also absurdly liquid, making missing a month's rent highly unlikely, regardless of how bad the second wave becomes over the coming months."

Frenette is right on the money in terms of both the resilience and the liquidity of this REIT. Relative to its peers, CT's performance in 2020 has been stellar. In fact, this stock is now approaching its pre-pandemic levels, in a sector where most REITs continue to be depressed. The strength of this REIT's balance sheet suggests there's a large margin of safety out there for this trust to handle the next economic curve ball.

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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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