My Top REIT Pick for the Ultimate TFSA Passive Income Stream

Description

REITs (Real Estate Investment Trusts) are a great addition to any TFSA (Tax-Free Savings Account) passive income stream. In recent years, REITs have proven more volatile than usual, thanks in part to the vast number of macro headwinds plaguing this market. The COVID crisis dragged many REITs down by high double-digit percentage points.

Though there's now more clarity around the pandemic, certain REITs have been heading towards those ominous 2020 lows. Indeed, there's talk of a recession that could happen as soon as early next year. The Bank of Canada seems more than willing to endure a bit of economic pain if it means pulling inflation back down to more manageable levels.

Undoubtedly, the transitory view of inflation was wrong, with Canadian inflation now above 8%. Though many think inflation has already peaked, it's unclear to what extent the trajectory will deviate from expectations. It's this high degree of uncertainty surrounding rate hikes and inflation that could continue to cause major swoons in the markets.

Taking advantage of volatility to get more yield for a lower price

Volatility isn't necessarily a bad thing for investors, especially for those that have plenty of dry powder on the sidelines. Though the recent market downfall has been hard on retirees and other conservative income investors, I'd argue that in the grander scheme of things, this market sell-off may be nothing more than an opportunity to get more (yield) for less principal.

Looking at the REIT space, the **BMO Equal Weight REITs Index ETF** (my preferred gauge of how Canadian REITs are doing), is down more than 16% from its high. From peak to trough, the REIT index ETF fell around 24%. Recent positive action is encouraging, especially if it turns out that most of the looming recession is already baked in.

Canadian Apartment REIT: Down 24% from its peak

At this juncture, I'm a big fan of **Canadian Apartment Properties REIT** (TSX:CAR.UN), which plunged right back to its 2020 lows just north of $40 per share. I view the plunge as an overreaction and think the recent ricochet off the bottom is just the beginning.

The $8.3 billion residential growth REIT has a 3.1% yield (quite low for a REIT) but it's enjoyed a good amount of capital gains over time. Even with distributions taken out of the equation, shares of CAR.UN have outperformed the **TSX** Index, with 45% gains over the past five years against the TSX Index's 30% return.

Clearly, Canadian Apartment Properties' management team is doing a lot of things right. Though higher rates will eat into distribution growth potential, the low 18.6% payout ratio is a thing of beauty for those seeking safety ahead of an economic storm.

At 0.8 times price-to-book, well below the industry average of 1.0, CAR.UN shares trade at a double-digit discount to book value. With such a prized property portfolio and a front-row seat to some of the hottest rental markets in Canada, such a discount should not be taken lightly by long-term income seekers.

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