1 REIT That Pays a Monthly Distribution (With 6% Yield and 3.2% CAGR)

Description

The Canadian dream of becoming a landlord just got even more appealing with a distribution that grows with inflation. From an investment perspective, land may not be an attractive proposition right now unless you have billions of dollars to invest. Here's a few reasons why:

- Land blocks a significant amount of capital on one asset, leading to concentration risk.
- Land is not that easy to sell, especially in the current market in which borrowing is expensive.
- Dealing with land requires expertise and adds to legal and financial expenses.

But REITs have made it possible to earn rental income through monthly distributions while diversifying your real estate portfolio and providing stock liquidity. My top pick is **CT REIT** (TSX:CRT.UN).

Strong fundamentals

Canadian Tire (TSX:CTC.A) formed CT REIT to manage its retail properties, and the REIT ventured to attract more tenants in the retail and industrial spaces. The close association with Canadian Tire provides CT REIT with the competitive advantage of gaining insights into potential real estate acquisitions and development opportunities.

CT REIT has over 350 properties across Canada, most of which (92.2%) are leased to Canadian Tire. Hence, it has an occupancy rate of 99.4% and one of the longest weighted average lease terms of 8.6 years. This means CT REIT has 8.6 years of secured rental income. It is currently investing in an intensification program to enhance the value of its properties and grow its distributions.

The REIT is investing $366 million in the redevelopment and expansion of existing Canadian Tire stores. It has a committed lease for around 99% of the total land under development. Unlike other REITs, CT REIT doesn't have to find tenants to increase the occupancy rate. Canadian Tire stores are anchors that pull other retailers towards the area.

These are tough times, and retail sales are slowing. Sales of auto parts, the bread and butter of Canadian Tire, have also slowed. But CT REIT has the financial flexibility to withstand a recession. A company cannot control demand, inflation, interest rates, or a recession. But it can have adequate resources at its disposal to weather the storm and live to see the day when the sun shines again. CT REIT is one of the stocks that will once again see the sun.

A 6% distribution yield

The second attractive thing about CT REIT is its handsome 5.95% distribution yield. It pays out 75.1% of its distributable cash flow in distributions, leaving it with sufficient cash flow for new projects and maintenance. A well-balanced cash allocation means that regular distribution payouts are sustainable. These cash flows are stable as 91.5% of annual rent comes from Canadian Tire itself.

What does the ~6% distribution yield mean to you?

When you buy one share of CT REIT for $14.59, it gives you $0.87 (5.95% of $14.59) per share annually, or $0.07232 a month, in distributions. This might look small, but many investors have paid $18.16 to get the same monthly passive income. You are getting access to it for a 20% discount.

If you invest $500 today, you can buy 34 shares of CT REIT and get $2.46 in monthly passive income starting in October. Repeat the same process for the next 23 months, and you will have 705 shares that give you $50 in monthly passive income. Your total investment in CT REIT would be $12,000 by September 2024.

But this monthly passive income excludes the distribution growth.

A 3.2% distribution CAGR

The best thing about CT REIT is that it's been growing its distribution annually since 2014 at a compound annual growth rate (CAGR) of 3.2%. It increased the monthly distribution by 3% in July. After considering the 3% distribution growth, your $12,000 investment could give you $54.3 in monthly passive income by 2024.

A reinvestment of this distribution could compound your returns by growing your share count. A $54 monthly distribution can buy you three shares of CT REIT, which converts to 36 shares in a year and an additional $33 in annual distributions. Even if you stop investing in CT REIT after two years, compounding could grow your portfolio to 1,850 shares ($49,000) in 20 years and earn you $204 in monthly passive income.

All this from an investment of $12,000 spread over two years. In these uncertain times, CT REIT is a safe, stable choice to add to the mix in your diversified portfolio.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CRT.UN (CT Real Estate Investment Trust)

2. TSX:CTC.A (Canadian Tire Corporation

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