



## Should You Buy Artis Real Estate Investment Trust for the 8% Yield?

### Description

Real estate investment trusts (REITs) earn rent and are a good way for investors to get passive monthly income. **Artis Real Estate Investment Trust** ([TSX:AX.UN](https://www.artisreal.com/TSX:AX.UN)) is a diversified REIT with a market cap of \$1.9 billion.

At \$13.50 per unit, it offers an above-average yield of 8%. Investing \$10,000 today would generate \$800 in passive annual income. Should income investors consider it today?

First, let's take a look at its business.

### The business

As of the end of March, Artis had 252 commercial properties with 26.2 million square feet across a portfolio of office, retail, and industrial assets in Canada and the United States.

It generates about 50% of net operating income (NOI) from office assets and 25% from industrial and retail assets, respectively.

Geographically, it generates a significant portion of NOI from Alberta (33%) and the U.S. (31%). Additionally, it generates 13% of NOI from Manitoba, 10% from Ontario, 7% from British Columbia, and 6% from Saskatchewan.

### Strengths

At the end of the first quarter, Artis had a portfolio occupancy of 93.3%.

Artis earns a significant portion of NOI from the U.S. With the stronger U.S. dollar against the Canadian dollar, this exposure is seen as a strength. As well, its U.S. portfolio had a strong occupancy of 96%, which helped lift the REIT's portfolio occupancy.

Artis's adjusted funds from operations payout ratio is expected to be 82.9% this year, which provides a margin of safety for its monthly distribution.

Since 2007, Artis hasn't cut its distribution which shows it's committed to paying its distribution.

### **Weaknesses**

Artis earns a significant portion of NOI from Alberta. Any Albertan exposure is viewed negatively because oil prices remain weak, even though they have recovered from lows recently.

Although its U.S. portfolio has a higher occupancy level than its Canadian portfolio, 17.9% of the 31% NOI from the U.S. portfolio is generated from the state of Minnesota. That could be seen as a concentration risk, but it could work both ways; if the economy in Minnesota remains strong, Artis's portfolio there should remain strong as well. On the positive side, Artis's Minnesotan portfolio consists of a mix of retail, office, and industrial properties.

### **Conclusion**

For the time being, Artis's distribution yield of 8% looks safe as its payout ratio sits at under 83% with some margin of safety.

Its U.S. portfolio shows greater strength than its Canadian portfolio. However, with the uncertainty around oil prices, its Albertan portfolio is weighing on its shares, and the shares are priced at a slight discount of about 16% from its book value.

Although Artis seems to be committed to paying its distribution, it has hardly increased it. So, investors buying Artis should view it as an income investment rather than an income-growth investment.

### **CATEGORY**

1. Dividend Stocks
2. Investing

### **TICKERS GLOBAL**

1. TSX:AX.UN (Artis Real Estate Investment Trust)

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