



## Want a High Yield? 3 Things to Watch for in Artis Real Estate Investment Trust

### Description

Real estate investment trusts (REITs) offer some of the highest yields as distributions. They own, operate, and manage diversified portfolios of property assets.

Using **Artis Real Estate Investment Trust** ([TSX:AX.UN](#)) as an example, there are several things investors should watch for.

### Is the yield sustainable?

High yields must be paid from somewhere. REITs' distributions are paid out from funds from operations (FFO), which is comparable to firms that pay dividends from earnings.

Artis is a diversified REIT that generates about 50% of its net operating income from office properties and 25% from retail and industrial properties, respectively.

At \$13.50 per unit, it yields 8%. Its monthly distribution is nine cents per unit, equating to an annual payout of \$1.08 per unit. So, if you buy 100 units for \$1,350 (excluding trading fees), you can generate \$108 per year.

In the first quarter that ended on March 31, Artis's FFO payout ratio was 71.1%, which gives ample margin of safety for its distribution.

### Be aware that it's primarily an income investment

Companies that pay high yields tend to have little growth. If you invest in them, you're expecting most of your returns to come from dividends instead of price appreciation.

It works well to invest in REITs that pay safe distributions if you intend for the investment to generate above-average income.

From 2010 to 2015, Artis's FFO per unit grew from \$1.20 to \$1.53—a compound annual growth rate of almost 5%.

A \$10,000 investment at the end of 2010 would have returned \$13,776 at the end of 2015 for an annualized rate of return of 6.6%.

### **Buy at a discount**

Actually, the \$10,000 investment would have declined to \$9,689. It's because of the \$4,687 distributions that were received in the five-year period that the investment would have come out green.

At the end of 2010 Artis traded at a multiple of 11. At the end of 2015 it traded at a multiple of 8.4, and its normal multiple in that period was 10.7.

So, Artis experienced multiple contractions due to slower growth.

Generally, since high-yield companies tend to have slow growth, investors should buy them at a margin of safety whenever possible. That is, investors should buy them when they're priced at a discount to offset any slow-growth periods.

### **Tax on the income**

REITs pay out distributions that are like dividends but are taxed differently from dividends. If you wish to avoid the different tax-reporting hassle, buy REITs in TFSAs to earn tax-free monthly income.

Investors may also be interested to know that in non-registered accounts, the return of capital portion of REIT distributions is tax deferred until unitholders sell or adjusted cost basis turns negative.

### **Conclusion**

Artis is currently experiencing a slow-growth period. As a result, it's priced at roughly a 16% discount based on its normal multiple. Investors with a priority for high income can consider Artis units here and on any further dips as its 8% yield looks safe with a sustainable payout.

### **CATEGORY**

1. Dividend Stocks
2. Investing

### **TICKERS GLOBAL**

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

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