



Do You Need More Income? This Beaten-Down REIT Yields +9%

Description

Real estate investment trusts (REITs) offer monthly distributions, which are perfect for investors looking for consistent cash flows.

Artis Real Estate Investment Trust ([TSX:AX.UN](https://www.artisreit.com)) offers a yield of 9.4%. Can you count on its big distribution?

Let's explore this high-income idea.

Portfolio

Artis REIT has a diversified portfolio of industrial, retail, and office properties in Canada and the United States.

At the end of the third quarter, the company earned 51.5% of its net operating income (NOI) from office assets, 24.6% from retail assets, and 23.9% from industrial assets.

Geographically, the REIT earned 33% its NOI from the U.S., 30.2% from Alberta, 12.1% from Manitoba, 10% from Ontario, about 9% from British Columbia, and 5.7% from Saskatchewan.

Artis REIT building

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Development projects

Artis REIT operates in strong U.S. markets, primarily in the states of Minnesota and Wisconsin. Management plans to eventually earn 40% of its NOI from the U.S.

Currently, the company has six development projects underway. Five are in the U.S. An industrial development (Park Lucero, Phase I) that's located in the Greater Phoenix Area of Arizona was just completed.

Dividend safety

A high occupancy and a sustainable payout ratio support the safety of the REIT's 9.4% yield. In the first nine months of the year, Artis REIT's payout ratio was 87.1%. At the end of the third quarter, Artis's occupancy was 92.9% and its committed occupancy was 93.7%.

Debt and maturities

The company has manageable exposure to interest rate hikes in the near term. At the end of Q3, it had unhedged variable-rate mortgage debt, which was 18.1% of its total debt. Additionally, the weighted-average term to maturity on all of its mortgages (about \$2 billion worth) was 3.7 years. Lastly, it had 35.5% of its mortgage maturities due by the end of 2017.

Income tax on REIT distributions

REITs pay out distributions that are like dividends but are taxed differently.

In non-registered accounts, the return-of-capital portion of the distribution is tax deferred until unitholders sell or their adjusted cost basis turns negative.

REIT distributions can also contain other income, capital gains, and foreign non-business income.

Other income and foreign non-business income are taxed at your marginal tax rate, while capital gains are taxed at half of your marginal tax rate.

When unsure of where best to hold REIT units, contact a tax professional or the REIT in question.

Conclusion

Artis REIT trades at 13.8% lower than it did a year ago. At \$11.50 per unit, the company trades 25% below its book value. However, tax-loss selling might further pressure the stock until December 23.

Interested investors eyeing its high income can consider buying the stock now. If it falls to \$10.50 per unit or lower, that would be the time to back up the truck.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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

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