Dividend Investors: Why Industrial REITs Are Largely Misunderstood

Description

When investors think “industrial,” thoughts of heavy manufacturing, large factories, smokestacks, and polluted tear-down real estate are often the first things that come to mind. Industrial real estate investment trusts (REITs) often thus have a corresponding sentiment of lower-yield, longer-term real estate plays in industrial parks around the country.

I’ll be taking a deeper look at a couple of the Canadian industrial REITs that currently fly under the radar of many dividend investors.

REIT #1: WPT Real Estate Investment Trust

WPT Real Estate Investment Trust (TSX:WIR.U) is a Canadian REIT focused on the U.S. industrial real estate market; 2016 was an excellent year for industrial REITs across the board, but even more so in the U.S. market, where industrial REITs outperformed the market by a substantial margin.

This industrial real estate boom has been fueled less by the large industrial heavy-industry and factories that most investors think of. Large-scale industrial property has been shifting for some time toward large-scale distribution companies and logistics companies.

These businesses have seen significant increases in business via the e-commerce giants of the world such as **Amazon.com, Inc.**, which has relied heavily on third-party logistics companies such as **FedEx Corporation** and has also begun buying up real estate and acquiring logistics companies to realize synergies relating to the distribution of e-commerce goods.

REIT #2: Dream Industrial Real Estate Investment Trust

Canadian REITs such as **Dream Industrial Real Estate Investment Trust** (TSX:DIR.UN) are exposed to some of the best kinds of industrial real estate. Dream Industrial REIT focuses on buying and holding industrial real estate closer to the downtown centres of Canadian cities, making the real estate much more desirable for logistics and e-commerce names such as Amazon or FedEx.

With the rise of same-day delivery, and companies competing for market share based on speed and accuracy of delivery, I believe that REITs investing in real estate that supports such endeavours will outperform the broader REIT market in the long term.

Market condition for REITS

While REITs generally yield more than the market (in Canada, the average dividend yield for a REIT sits around 5.2%), REITs tend to underperform the market in terms of capital appreciation. Over the past five years, REITs have done incredibly well, although in 2016, REITs did not perform as well as the broader market (18% return vs. 22% return for the market).

In 2017, there is a lot of uncertainty relating to the TSX, as it is heavily weighted to energy, and the return on the index will mirror energy prices quite closely, meaning a bet on the market is largely a bet on whether or not energy prices will rebound. While risk does exist with the Canadian housing market, analysts largely believe that, barring a crash, the market should be somewhat more stable than the broader market in the medium term.

Many investors buy and hold REITs for the long-term upside and income elements, often considering names such as Dream Industrial REIT or WPT REIT as safer plays than a high-dividend common stock operating in other market segments. For long-term income investors fitting this description, I suggest taking a look at some of the industrial REIT names available.

Stay Foolish, my friends.

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