



2 Industrial REITs Yielding +4% That Will Benefit From E-commerce's Rapid Growth

Description

Industrial REITs have failed to garner the same level of attention from investors, as their more prominent peers which invest in retail and commercial property. With interest rates still well below historical averages causing bond yields to remain low, REITs remain a popular lower-risk means of generating income among investors, especially for retirees.

While those REITs with significant exposure to retail properties are facing significant headwinds, primarily because of the rise of e-commerce and the decline of the department store, industrial REITs have a far brighter future ahead.

Now what?

You see, the rapid growth of e-commerce has triggered a surge in demand for the logistics required to support the packing, distribution, and shipping of orders. Crucial to that requirement is the space required to store merchandise as well as operate distribution centres. That makes warehouses a critical component for the effective functioning of e-commerce businesses and online retail sales.

Real estate industry consultants CBRE estimate that for every US\$1 billion in e-commerce sales, an additional 1.25 million square feet of logistics space is required. When it is considered that Canadian online retail sales are expected to grow by over \$6 billion between now and 2020, that will spark a massive surge in demand for warehouse floor space. This rising demand combined with a lack of available floor space will push rental prices higher, which will be a boon for industrial REITs.

The first opportunity is **WPT Industrial Real Estate Investment Trust** (TSX:WIR.UN), which owns and operates a portfolio of U.S. industrial properties focused on distribution and warehouse assets. Its top 10 tenants account for 51% of total gross leasable area and include e-commerce giant **Amazon.com, Inc.** and two other major e-commerce businesses, which account for 12% of that figure.

WPT finished the second quarter 2017 with an impressive occupancy rate of just under 99% and net income that was 4.5 times higher than a year earlier. The growing demand for warehouse floor space,

along with the development of new properties, will act as a powerful tailwind for earnings. When coupled with its payout ratio being around 90%, its juicy yield of just under 6% appears sustainable.

The next prospect is **Pure Industrial Real Estate Trust** (TSX:AAR.UN), which pays a monthly distribution yielding a tasty 5%. It owns a diversified portfolio of light industrial properties in the U.S. and Canada. Pure Industrial derives 74% of its net operating income from e-commerce and distribution with **FedEx Corporation**, **Best Buy Co Inc.**, **TFI International Inc.**, and DHL among its top 10 tenants.

It finished the second quarter with a remarkable occupancy rate of just under 97%, and net income more than doubled year over year for that period. That solid occupancy rate and strong earnings growth bode well for the sustainability of its yield and distribution, which had a payout ratio of 78% at the end of the second quarter.

So what?

Both industrial REITs are well positioned to benefit from the rapidly expanding demand for distribution centres and warehouses provoked by the rise of e-commerce and its expected meteoric growth. That not only means that earnings will grow, sustaining their juicy yields, but it bodes well future distribution increases, because they are obliged to pay out 100% of their corporate income to retain their favourable tax status.

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Author

matttdsmith

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