

## Should You Buy This REIT for a Safe 8.4% Yield?

### Description

Some stocks offer enticing yields. In particular, [income-focused investors](#) would be excited to invest in real estate investment trusts (REITs), which offer juicy, monthly distributions that are supported by a portfolio of real estate assets.

**Artis Real Estate Investment Trust** ([TSX:AX.UN](#)) is a diversified REIT, which has a portfolio of office (about 53% of its net operating income), retail (about 21%), and industrial assets (about 26%).

In the first quarter, Artis REIT generated roughly 40% of its net operating income from the United States — primarily from Minnesota (about 18% of its net operating), Arizona (about 9%), and Wisconsin (about 9%). Thus, a stronger U.S. dollar against the Canadian dollar will improve the safety of its distribution.



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### An improving real estate portfolio

Last year, Artis REIT sold about \$320 million of properties and acquired new ones with comparatively higher cap rates. It also developed new industrial and office properties, which generate high yields.

Artis REIT is further improving its portfolio by investing in about \$300 million of major redevelopment and new construction projects this year. It can then increase the rent for its redeveloped properties.

It's working on multi-family two development projects in Toronto (total of 900 apartment units), one project in Winnipeg (395 units), and one project in Calgary (300 units).

Altogether, these actions should help improve the quality of Artis REIT's cash flow.

### **An industry-beating stock**

Artis REIT stock has delivered annualized returns of about 7% in the last three years, which has beaten the **iShares S&P TSX Capped REIT Index Fund** by 2%, and has had even better returns than its peers in the period. One reason for Artis REIT's outperformance is that it has maintained its distribution, while another peer has cut its distribution.

So, it's essential to ensure Artis's [distribution is sustainable](#), and if that's the case, buy the stock at a good yield.

### **Is the stock a good buy now?**

At the recent quotation of \$12.90 per unit, Artis REIT offers a distribution yield of almost 8.4%. Because the diversified REIT has been selling assets, its funds from operations has been declining on a per-unit basis since 2017. So, don't expect a distribution hike anytime soon.

However, Artis REIT's high yield should be safe, as its funds from operations payout ratio was sustainable at about 80% in the first quarter.

The stock isn't cheap. Sure, investors can buy now and expect the diversified REIT to maintain its distribution. However, there's little margin of safety and arguably little upside for the stock.

Interested investors should consider the stock at a maximum price of \$12 per unit, which would imply a starting yield of 9%.

### **CATEGORY**

1. Dividend Stocks
2. Investing

### **TICKERS GLOBAL**

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

### **PARTNER-FEEDS**

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

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