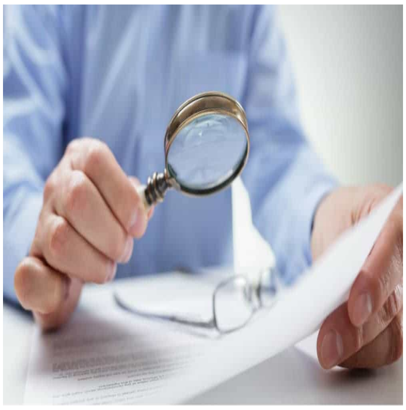

Ride the Logistics Wave With This 5.8% Yield

Description

The rise of e-commerce, thanks to companies like **Amazon.com, Inc.**, has led to significant growth in logistics-related real estate.

“Over really the last six years, industrial logistics real estate — and that includes everything from warehousing to distribution to fulfillment — has been on a meteoric rise,” Adam Mullen, CBRE’s Industrial and Logistics Leader for the America’s told Supply Chain Dive in June. “And the No. 1 reason has really been e-commerce.”

As e-commerce grows, and businesses are wanting to get closer to their customers, more companies are leasing industrial space in the suburbs to make that happen.

Summit Industrial Income REIT (TSX:SMU.UN) is benefiting greatly from this trend, which is providing a growing cash flow. It currently pays out 4.3 cents a unit on a monthly basis for a 5.8% annualized yield.

If you’re an income investor, the combination of an attractive yield with a stable cash flow are two big reasons why you might want to own this little-known real estate investment trust (REIT).

But they’re not the only reasons.

Acquisitions prime it for growth

In 2017, Summit acquired $410 million of industrial real estate at an average cap rate of 6.2% — a price below replacement cost — that will generate approximately $25.4 million in net operating income.

In June of this year, it acquired five warehouse/logistics properties in southern Ontario and Calgary for $127 million. The five properties have 799,000 square feet of gross leasable area; the cap rates on the buildings varied from 4.34% to 5.86%.

With the addition of the five properties, it now owns 88 industrial properties with an average occupancy rate of 98.2% with 82% of the portfolio in Greater Toronto or Greater Montreal.

Summit commenced operations in 2012. In a short six-year period, its revenues and funds from operations have grown exponentially, and acquisitions are a big reason for that.

Rising interest rates

While rising interest rates are something to be concerned about, Summit's balance sheet is conservatively financed. At the end of March, it had $516 million in total debt, the newest $88 million tranche for 14 properties obtained from **Bank of Montreal** at a 4.1% interest rate.

So, if Summit bought those properties at a 6.2% cap rate, it's got a 210-basis-point spread between money coming in and money going out. Ultimately, what's left is funds from operations, which is where the monthly distributions come from.

Without getting into an hour-long discussion about cap rates and interest rates and the spread between them, I'm going to assume, for simplicity's sake, that as interest rates rise over the next three to five years, so too will cap rates.

It's not a certainty, but the two tend to move together. So as long as Summit maintains a healthy balance sheet and stays away from too much debt by issuing more stock, it should be okay given it's operating in one of the highest-demand areas for real estate investment.

The bottom line on Summit

It's not glamourous, and very few investors probably know of it, but if you're a patient income investor, it ought to be on your watch list.

Two other industrial REITs you might consider are **Dream Industrial Real Estate Invest Trst** and **WPT Industrial Real Estate Investment**, yielding 6.7% and 5.6% respectively.

For my money, however, Summit is the one to own.

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