In Case You Missed It, Dividend Stocks Are on a Roll: How About These 2 Commercial REITs?

Description

Real estate investment trusts (REITs) are intuitive investments because it is easy to understand the hard assets. Not all REITs are created equal, however. Understanding the REIT quality amounts to digging into what is inside the assets.

If the tenant's business dries up, then the commercial REIT landlord could be left holding the bag.

One of the hottest REIT sectors has been data REITs, such as **Digital Realty Trust, Inc.** (NYSE:DLR) that trades on the New York exchange and houses 205 data centres globally. This is an example of a specialty REIT filling a growing need. Imagine huge warehouses that house computer hardware racks that keep your cloud data safe. Investors recognized the major upside and DLR share price has run up handsomely, doubling in share price in the last five years.

I do a deep dive before buying in the REIT sector

Artis Real Estate Investment Trust Unit (TSX:AX.UN) is a well-established REIT. Prior to 2007 the company went by the name of Westfield REIT, and the company's success has largely been viewed as tied to Alberta because it owns properties in that province. The company has recently diversified in the Midwest United States, into Minnesota.

Artis is intriguing right now because in the June quarterly report the company estimated a net asset value per share of $14.20. Meanwhile, the stock is trading under $13.00 per share at the time of writing. The stock is trading below the net asset value. This is a good way to value REITs and it shows that Artis is undervalued.

Is Artis undervalued because it is in jeopardy?

Certainly not. Artis has come on tough times as of late because of Alberta's struggles, but the company has one of the most reliable distributions, $0.09 per share each month, out there.

Wait — 9 cents per share each month. Seems like peanuts. You can't even use pennies anymore! But if you bought Artis in the summer of 2008 for $16, *before* the market collapsed and never touched the investment, you would've doubled your money simply from the dividend cash alone. The share price has also dropped 18% in a decade, which offsets the dividend gains.

Some analysts are bullish on Artis now, as the combination of strong management and 8% dividend yield makes for a safe bet. The funds-from-operations are estimated to be $1.36 for 2018, which is above the $1.08 annual dividend distribution.

Meanwhile, this auto sector REIT is risky

Automotive Properties Real Estate Investment Trust (TSX:APR.UN) is inextricably tied to car sales, as this REIT owns 40 properties that it then leases to the automotive dealership owners on long-term deals.

The company website states that the Canadian automotive sales reached ~$156 billion in 2017. That may be true, but 2018 has been a crappy year for car sales. There's a lot of pressure for the car sector in North America in general.

Type "auto debt bubble" into Google if you have a few minutes and want to read about how dubious car financing deals is creating a ticking time bomb. Meanwhile, back to reality. If Canadian car sales continue to drop, or worse, a recession hits, then I don't think owning shares in Automotive Properties will preserve investor capital.

Correction: This article was amended on 22/8/2018 having previously stated Automotive Properties Real Estate Investment Trust "owns 40 auto dealerships in Canada. This company acquires dealerships that can turn a profit through quality tenant agreements. I just can't get past the one common thread here: it's all cars!" The article now clarifies the fact that APR acquires the underlying properties, not the dealership businesses.

CATEGORY

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bmacintosh