2 Top REITs Yielding +4% to Enhance Any Income-Focused Portfolio

Description

North American retail REITs have been roughly handled over the last two-years as the industry undergoes a major transformative change caused by the arrival of e-commerce and online shopping, sparking considerable consternation among investors, retail REITs have long been considered a stable source of income and yield in an investing environment where traditional income paying assets have failed to perform.

While most Canadian retail REITs have yet to suffer any significant impact because of the retail apocalypse, many in the U.S. are struggling to survive. The severe fallout south of the border for retail REITs is a harbinger of worse to come for their Canadian peers. However, this does not make REITs unappealing investments. Rather, it makes it imperative for investors to conduct their due diligence and only buy those with quality assets, the ability to steadily grow income and sustain their distribution.

One class of REITs that will not only survive the retail meltdown, but could also very well benefit from it are industrial REITs. The reason for this is the rapid growth of online retail and e-commerce that has sparked a surge in demand for the considerable back end logistics required to support the packing, distribution and shipping of orders.

Here are two REITs that income hungry investors should consider adding to their portfolios.

Summit Industrial Income REIT (TSX:SMU.UN)

Summit owns a Canadian portfolio of light industrial real estate focused on the eastern provinces of Ontario and Quebec. Those assets include 107 industrial properties and one data centre with 13.3 million square feet of gross leasable area (GLA). The trust pays a regular monthly distribution, yielding a tasty 4.4%.

As at the end of 2018, Summit had a 99.4% occupancy rate and announced some impressive numbers for 2018. Summit reported that 2018 revenue had risen by a healthy 57% year over year to $92 and that funds from operations (FFO) had shot up by a stunning 62% to $43.6 million. This strong growth was driven by Summit's acquisition of 24 light industrial properties during 2018, which added 4.8

million square feet to the trust's portfolio. The REIT's ongoing focus on improving and expanding its properties will driver further earnings growth, which will boost the sustainability of that 4.4% yield.

Dream Industrial REIT (TSX:DIR.UN)

Dream Industrial owns a diversified portfolio of 223 industrial properties across North America, which is 54% focused on warehouse and logistics properties. It pays a regular monthly distribution yielding a very tasty 6%, which, with a 2018 payout ratio of 82% of FFO appears quite sustainable.

Dream Industrial reported some solid 2018 results, including an 18% year over year increase in FFO — and that net income of $157.5 million was 4.5 times greater than a year earlier. The REIT also announced that it finished the year with an occupancy rate of just over 97%, which was 0.5% greater than a year earlier. Notably, Dream Industrial has a well laddered lease maturity profile with no significant volume of maturities until 2022, which still only amounts to around 17% of its total GLA.

The trust continues to bolster its future earnings through accretive acquisitions. Dream Industrial is currently negotiating the purchase of four multi-tenant industrial properties for around $107 million. It is also in the process of closing the $235 million acquisition of a portfolio of 21 buildings located in five cities across the Midwest U.S.. Those deals on completion will boost its earnings as well as the sustainability of that very attractive distribution.

Why buy these REITs

Both trusts will benefit from the rapidly expanding demand for distribution centres, warehousing and other light industrial properties triggered by the rapid expansion of e-commerce and online retail. That bodes well for higher earnings, the sustainability of their distributions as well as juicy yields and the potential for further hikes because they are obliged to payout most of their corporate income to retain their favourable tax status.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:DIR.UN (Dream Industrial REIT)
2. TSX:SMU.UN (Summit Industrial Income REIT)

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Date
2025/08/21
Date Created
2019/04/26
Author
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