



This Small-Cap REIT Yields 8% and Offers Both Income and Growth

Description

Real estate investment trusts (REITs) are a popular topic among investors because of the convenience they offer. Gaining exposure to the real estate sector and being paid passive income without having any of the hassles of managing a property make [REITs very appealing](#). Additionally, investors gain asset diversification because each REIT holds a portfolio of properties.

Choosing the right investment can be overwhelming due to the large number of REITs available. It is important for investors to understand the workings of the business — where the properties are located, what kind of real estate it owns, and who its major clients are. One REIT that looks intriguing is **Nexus REIT** ([TSX:NXR.UN](#)).

Nexus is a growth-oriented REIT operating in the commercial space. It owns industrial, office, and retail properties. The portfolio of assets is spread across Canada, but the majority are in Quebec and Alberta.

Industrial

There are 30 industrial properties in Nexus's portfolio, most of which are located in Alberta. The majority of lease terms in the industrial portfolio are generally pretty lengthy, which locks in long-term stable cash flows. Additionally, within each of the lease agreements are yearly rent escalations.

The industrial tenants include major companies such as Westcan Bulk Transport, Canada Cartage, and Northern Mat & Bridge. These main tenants have integrated these industrial properties into the logistics of their day-to-day operations. The integration is important because it severely reduces the risk that these companies won't renew their leases upon expiry.

Office

The office portfolio consists of 15 properties, nine of which Nexus co-owns. Major tenants include the Government of Canada, Expedia, Service Canada, and **Sun Life** just to name a few. The office spaces are primarily located in the Montréal area.

Retail

The retail portfolio has 23 properties, 16 of which are co-owned. Similar to the office portfolio, the majority of retail properties are located in Quebec. Many of the properties are naturally successful driving lots of traffic as they are grocery-anchored. The retail portfolio also serves a lot of well-known, respectable tenants. These largest of the tenants are **Canadian Tire, Walmart, BMO, National Bank,** and **Metro**.

Strategic partnerships

Nexus is excited about its two strategic partnerships. Nexus has entered agreements with RFA Capital Partners and TriWest Capital Partners. These strategic partnerships will give Nexus access to deal flow from the two companies, so Nexus can increase its scale during this growth phase.

Both companies are well-established, leading private equity companies with a long history of experience in the commercial real estate space. RFA is a real estate investment and asset management firm, while TriWest is primarily focused on the industrial sector in western Canada.

Growth opportunities

Nexus is redeveloping and renovating some of its properties to create growth in value for unitholders. The multi-tenant sports facility it's redeveloping in Richmond is expected to create additional value, while decreasing the cap rate. The Rue Stanley redevelopment will also be finishing renovations soon giving Nexus additional cash flow.

Financials

What's really attractive is the monthly dividend, which yields 8% annually. Currently, the funds from operations payout ratio is 78%, suggesting the dividend is reliable and stable. Nexus also has relatively long leases still on the books with roughly 60% running until at least 2022.

The occupancy rate currently stands at 95%; however, that's expected to increase when renovations and redevelopments conclude. The company has a respectable debt level with the debt-to-assets ratio around 54%.

One note for potential investors is the liquidity risk due to the low volume of shares traded. For long-term, income-seeking investors, however, the liquidity risk is less of a concern.

The bottom line

Nexus is a small-cap REIT that offers investors both income and growth. The 8% yield coupled with growth opportunities in the works make Nexus look attractive at this valuation.

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