



## Bargain Hunters: 2 Deeply Discounted REITs Yielding Over 6% to Buy Today

### Description

The [hunt for yield](#) is gaining momentum because interest rates remain close to historical lows because of the Fed's decision to put its policy of normalizing interest rates on hold, boosting the attractiveness of dividend-paying stocks and real estate investment trusts (REITs) among retirees and investors.

REITs, because of their low volatility and ownership of hard assets, remain one of the best means of generating steadily growing income while hedging against growing [market uncertainty](#). What makes the following two REITs particularly attractive is that not only are they paying regular distributions with juicy yields of 6% or more, but they are also attractively valued and trading at a discount to their net-asset-value (NAV).

### Leading REIT trading at a deep discount

**Brookfield Property Partners L.P.** ([TSX:BPY.UN](#))(NASDAQ:BPY) is a member of the Brookfield family of companies and is an [outstanding addition](#) to any portfolio. Not only does it pay a distribution yielding a very juicy 6.7%, but it appears undervalued. Analysts estimate that Brookfield Property has a NAV of US\$27.41, thereby indicating that it's trading at around a 28% discount. This demonstrates that investors will enjoy a tasty yield and significant capital gains.

Unlike many smaller REITs, Brookfield Property owns a diversified portfolio of iconic office and retail properties in New York, Las Vegas, London, Sydney and Toronto. The quality of those properties and their global flagship status means that they remain unaffected by the headwinds facing lower grade office and retail properties, which have brought some U.S. retail REITs to the brink of collapse.

Brookfield Property has a long history of growing its funds from operations (FFO), reporting a compound annual growth rate (CAGR) for company FFO over the last five years of 8%. That solid clip should continue as it focuses on asset recycling, developing its core office and retail properties and making opportunistic acquisitions, all of which will support management's targeted annual distribution growth of 6%, further enhancing Brookfield Property's attractiveness as an investment.

## Recent restructuring creates an attractive opportunity

The last few years has been a tough ride for investors in **Slate Office REIT** (TSX:SOT.UN). Its market value has declined sharply, losing 20% over the last year as it was weighed down by high levels of debt and concerns over diminishing returns on the capital invested.

For these reasons, management embarked on a series of initiatives aimed at unlocking value for investors, including selling a 25% interest in six Toronto properties for \$132 million and slashing its distribution by 47% to \$0.40 annually, beginning with the March 2019 monthly payment.

Slate Office used the capital raised to reduce debt and bolster liquidity seeing it finish the first quarter 2019 with net debt of just over 11 times its adjusted EBITDA compared to 14 times a year earlier. Slate Office's occupancy rate at the end of the first quarter had improved by 1.8% to 87.7%, with an investment grade portfolio of high-quality tenants, including **Bell Canada**, **SNC-Lavalin** and **Canadian Imperial Bank of Commerce** rounding out its top three.

While management took a knife to Slate Office's distribution, it still rewards loyal investors with a very tasty 6.5%. Despite having a first quarter payout ratio as a function of adjusted funds from operations (AFFO), of 101% this should normalize at somewhere around a very sustainable 62% because of the substantial reduction in the distribution.

What makes Slate Office an especially attractive investment is that it's trading at a 28% discount to its NAV per unit, indicating that there is ample potential for investors once earnings, FFO and AFFO normalize after the adjustments made to its portfolio and distribution. Management has recognized this valuation disconnect and is committed to purchase up to 10% of the outstanding units, which should help to bolster its market value.

## Foolish takeaway

Brookfield Property and Slate Office not only offer investors sustainable distributions yielding a very tasty 6.5%, but they're trading at deep discounts to their NAV, meaning that there is considerable upside available for investors. This is a unique opportunity for investors because typically such high-quality REITs trade at a premium to their NAV. This makes now the time to acquire both REITs to boost passive income and long-term capital growth.

### CATEGORY

1. Dividend Stocks
2. Investing

### TICKERS GLOBAL

1. TSX:BPY.UN (Brookfield Property Partners)
2. TSX:RPR.UN (Ravelin Properties REIT)

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