



Now Is the Time to Back Up the Truck for This REIT Yielding Over 5%

Description

WPT Industrial REIT (TSX:WIR.U) is a pure-play industrial real estate investment trust (REIT) rewarding investors with a regular monthly distribution yielding 5.5%. A combination of quality assets, growing demand for industrial properties, and a valuation disconnect makes now the time to buy this REIT.

Quality property portfolio

WPT owns a portfolio of 70 quality light industrial properties in the U.S. with over 21 million square feet of gross leasable area. It finished the first quarter 2019 with an impressive 99.1% occupancy rate and its tenant base includes Fortune 500 companies such as **General Mills**, **Amazon.com**, **Unilever**, and **Honeywell**.

Quarterly net operating income (NOI) expanded by a healthy 3.4% year over year to US\$18 million, although funds from operations (FFO) fell by 14% to US\$9.6 million. That softer FFO can be attributed to higher severance as well as general and administrative costs which were a one-off event caused by the internalization of management.

Increased rents and management fees from the acquisition of four properties in 2018 along with the end of those one-off events should give FFO over the remainder of 2019 a healthy nudge.

Growing U.S. demand for light industrial floor-space coupled with tighter supply will boost WPT's earnings. One of the key drivers of rising demand is the rapid adoption of e-commerce and online shopping, triggering a substantial expansion in the need for logistics and distribution centres. Retail industry analysts anticipate that world-wide retail e-commerce sales will expand by US\$1.2 trillion between the end of 2018 and 2020 to be worth almost 15% of total retail sales.

While this important growth driver coupled with WPT's quality property portfolio and exceptional tenant base, including leading online retailers like Amazon makes it an attractive investment, it is WPT's attractive valuation that makes now the time to buy.

Analysts have calculated that WPT has a net asset value (NAV) of around US\$13.40 per unit, which is only 3% lower than its current market price, indicating that the REIT is attractively valued. That NAV will expand once the latest acquisitions, rental adjustments, and growing profitability are accounted for, indicating that there is considerable capital appreciation available.

The importance of using a REIT's NAV to judge whether it is an appealing investment can't be emphasized enough. It is a far more reliable measure than book value for determining whether a REIT is mispriced, which appears to be the case for WPT.

WPT's appeal as an investment is enhanced by its regular monthly distribution yielding a juicy 5.5%, which appears sustainable, despite it having a payout ratio of 110% of AFFO per diluted unit. I expect the payout ratio, as a function of AFFO, to normalize at less than 100% as funds flow increases because of higher rents, additional properties, and lower costs.

Putting it together for investors

REITs are one of the few investments that allow retirees and income-hungry investors to earn a decent yield in an [environment](#) where interest rates and hence yields from traditional income-generating investments such as bonds remain at close to historical lows. The appeal of REITs is heightened by their low volatility relative to other types of stocks and the fact that they own hard assets.

It is rare to find a quality REIT with solid growth potential like WPT trading at an appealing valuation that is not much higher than its NAV per unit. When this is considered in conjunction with its outstanding portfolio of tenants and the growing demand for industrial property, driven by rapidly [expanding e-commerce](#), it becomes a compelling addition to any portfolio.

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