Profit From the Retail Apocalypse by Buying This REIT Yielding Over 5%

Description

The end of traditional brick-and-mortar retail could be in sight, as the retail apocalypse claims an ever-growing number of victims. By the end of April 2019, it was estimated that in the U.S. alone, 12 major retailers had declared bankruptcy, while many others announced store closures, as they struggle to reduce costs and survive the structural transformation of the industry.

This is having a notable impact on the viability of shopping malls and retail real estate investment trusts (REITs). Major U.S. retail REITs **CBL & Associates** and **Washington Prime Group** are struggling to survive, as anchor tenants close their doors and sales at their properties decline, causing smaller stores to close. While the impact has not been as severe in Canada, and retail REITs have not been as harshly affected, it is becoming increasingly clear that brick-and-mortar retail is in decline. Despite this being bad news for retail REITs, it is a very positive development for industrial REITs like **WPT Industrial REIT** (TSX:WIR.U).

You see, a combination of growing demand for industrial properties caused by the widespread and rapid adoption of online retailing and lack of supply is causing rents to rise at a steady pace.

This will continue as e-commerce continues to expand globally and challenges the existence of traditional brick-and-mortar retail. According to analysis from industry publication *eMarketer,* total world-wide retail e-commerce sales will reach US$4 billion by the end of 2020 and make up almost 15% of total retail sales. This will cause the demand for light industrial properties to expand at a rapid clip because of the growing need for logistics centres to support online retailers.

Quality property portfolio

WPT owns 70 industrial properties located in the U.S. with gross leasable area of 21 million square feet and a fair value of US$1.4 billion. It finished the first quarter 2019 with an impressive occupancy rate of 99.1%. WPT's top-10 tenants include major corporations such as **General Mills**, **Continental Tires**, **Unilever** and **Amazon.com**, which, when combined, account for over 16% of WPT's total annualized base rent.

REIT has a well-laddered balance sheet with debt maturing at staggered intervals over the next five years and no significant repayments due until 2023.

WPT has also been able to steadily grow earnings over the last two years, with first-quarter 2019 net property revenue expanding by a healthy 12% to US$25 million and net operating income popped by 11% to US$18 million. That growth will continue due to recent acquisitions and development of existing properties.

What makes WPT particularly attractive in the current operating environment, dominated by low interest rates and yields on traditional income-producing assets such as bonds, is its monthly distribution yielding a juicy 5.5%. With a payout ratio of 90% of funds from operations per diluted unit, the distribution is sustainable, and the payout ratio should fall as WPT's earnings grows.

Foolish takeaway

The REIT's appeal as an investment is boosted by its attractive valuation. Even after gaining 9% since the start of 2019, WPT is only trading at a 5% premium to its net asset value (NAV), which analysts have calculated to be US$13.40 per unit. It is rare to find a high-quality REIT like WPT trading at a modest premium to its NAV. This indicates that the REIT offers investors the opportunity to not only earn an appealing yield in excess of 5% but also watch their capital appreciate.

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