



TFSA Investors: A Top REIT Yielding 5.6% to Boost Growth

Description

Near historically low interest rates and declining returns from traditional income-producing assets such as bonds has seen the popularity of stable income-producing stocks like real estate investment trusts (REITs) soar. A combination of low volatility, ownership of recession-resistant hard assets, regular distributions, and high yields have made them particularly popular among retirees and other income-hungry investors.

What many investors don't realize is that those same characteristics make them a solid investment to create wealth over the long term. One that stands out for all the right reasons is **Dream Industrial REIT** ([TSX:DIR.UN](#)). The REIT offers investors the opportunity to access a juicy 5.6% yield and benefit from the ongoing uptake of online shopping and e-commerce.

The best way to hold an investment like Dream Industrial is in a Tax-Free Savings Account (TFSA), because all distributions and capital gains are tax-free for the life of the investment. That removes one of the greatest impediments to creating and retaining wealth: taxes.

Solid growth

Dream Industrial owns a portfolio of 209 industrial properties located across Canada and the U.S., which, at the end of the second quarter 2019, had an occupancy rate of 96.9%.

The REIT has been able to grow its earnings at a steady clip. For the second quarter, net rental income had soared by 27% year over year to \$35 million, while funds from operations (FFO) shot up by a notable 37% to almost \$28 million. Net income for the quarter was a whopping five times greater than a year earlier, although this significant increase occurred due to a change in the fair value of existing properties rather than a large increase in earnings. This emphasizes why FFO is a superior measure to use when investigating the financial performance of a REIT.

The increase in net rental income and FFO was primarily due to acquisitions, higher rents, and the completion of internal growth initiatives.

Dream Industrial is focused on expanding earnings through a combination of capital recycling, organic growth, and opportunistic acquisitions. The REIT's latest deals were the sale of a portfolio of properties in Eastern Canada for \$271 million and the purchase of two properties in Ontario for \$7 million and \$33 million, respectively.

The ongoing transformation of the retail sector will also act as a powerful tailwind for Dream Industrial. While the rapid uptake of online shopping has triggered an [apocalypse](#) for brick-and-mortar retailers as well as shopping malls, it has created [greater demand](#) for light industrial properties. This is because such properties form a crucial part of operations for online retailers because of the need for logistics and transport centres.

Analysts are already predicting that this has triggered a shortage of light industrial properties that will only continue to grow in a market experiencing supply constraints. This will lead to higher rents and property values, thereby boosting Dream Industrial's income and the value of its portfolio.

Foolish takeaway

That growth will ensure that Dream Industrial's distribution remains sustainable, which, with a trailing 12-month payout ratio of 84% of diluted FFO per unit, is already maintainable. What makes Dream Industrial an even more attractive buy is that its net asset value (NAV) continues to grow, reaching \$11.04 per unit at the end of the second quarter, which is 5% greater than at the end of 2018. That NAV also indicates that the REIT is trading at a slight premium of 13% to its current market value, making now the time to buy and add Dream Industrial to your TFSA.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:DIR.UN (Dream Industrial REIT)

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1. Business Insider
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