3 of the Best-Performing REITs for 2019: Is it Time to Buy?

Description

The Fed's latest rate cut, near historically low interest rates, and an increasingly pessimistic outlook for the global economy have sparked a renewed interest in high-yield dividend-paying stocks. Among the best to own in an environment where the economic outlook is declining are real estate investment trusts (REITs). This is because they own real estate that is resistant to economic slumps and are obliged to pay most of their taxable income in distributions to qualify their tax-sheltered status.

Many Canadian REITs have performed strongly since the start of 2019. One of the best performers was **Dream Industrial REIT** (TSX:DIR.UN), which gained a stunning 42%, followed by **BSR Real Estate Investment Trust** (TSX:HOM.UN), which is up by 40%, and **Artis Real Estate Investment Trust** (TSX:AX.UN) with a 36% gain. This has sparked considerable speculation that now is the time to take profits, but there are signs that their value will keep rising.

Top industrial REIT

Dream Industrial reported some solid second-quarter 2019 results. These include funds from operations (FFO) soaring by 37% year over year to almost $28 million and net income growing five-fold to $84 million, although that included the proceeds from the sale of Dream Industrial's Eastern Canadian property portfolio.

Impressively, aside from finishing the quarter with a solid occupancy rate of 96.9% Dream Industrial's net asset value (NAV) had expanded by 10% year over year to $11.04 per unit**,** around 21% less than its current market price. This and Dream Industrial's strong gains since the start of 2019 can be partly explained by speculation that it may become a takeover target after **Blackstone Group** agreed to acquire stablemate **Dream Global REIT** in a $6.2 billion deal.

Dream Industrial is poised to rally further because of its quality portfolio of properties and tenants and the sharp growth in demand for light industrial real estate sparked by the rise of online retail and e-commerce. While patient investors wait for that to occur, they will be rewarded by its regular distribution yielding a juicy 5%, which, with a diluted FFO payout ratio of 86% for the first half of 2019, appears sustainable.

Residential REIT

BSR owns 47 multifamily properties in the U.S., allowing it to benefit from a stronger U.S. economy where second-quarter 2019 GDP expanded by 2.1% compared to around 0.4% for Canada during the first quarter. It reported some robust second-quarter 2019 numbers, including an occupancy rate of 95%, a 7% year-over-year increase in weighted average rent, and net operating income (NOI) rising by 12%.

Disappointingly, FFO and adjusted funds from operations (AFFO) per unit fell by 9% and 17%, respectively, because of increased expenses and maintenance capital expenditures. That saw BSR's AFFO payout ratio, which is a key indicator of distribution sustainability, rise to 80.3%. While that is a somewhat concerning development, it demonstrates that the distribution is clearly sustainable and safe. FFO and AFFO also tend to fluctuate over the course of a year, and management expects both to improve during the second half of 2019.

It is BSR's exposure to the U.S. housing market which makes it a compelling investment because of much stronger economic growth south of the border and the ability to diversify away from Canada's banking- and resources-laden market. Patient investors will be rewarded by BSR's juicy 4.5% yield while they wait for the stock to appreciate further in value.

Diversified REIT

Artis is a diversified REIT which owns 229 commercial properties across Canada and the U.S. comprised of office, industrial, and retail assets that make up 52%, 28%, and 20%, respectively, of its NOI. The diversified nature of Artis's portfolio will help to reduce the impact of an economic downturn upon its performance. It reported some robust second-quarter 2019 numbers, including an occupancy rate of 94.7%, which was 0.6% higher than a year earlier, and a 13% year-over-year increase in normalized FFO as well as AFFO per unit.

Even after the REIT's strong gains since the start of 2019, it is still trading at a 22% discount to its NAV of $15.37 per unit, highlighting that there is still considerable upside ahead. This makes now the time to buy Artis. While investors wait for its stock to appreciate, they will be rewarded by the REIT's regular distribution, which is yielding a tasty 4%, and a stock with a conservative and sustainable AFFO payout ratio.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:AX.UN (Artis Real Estate Investment Trust)
2. TSX:DIR.UN (Dream Industrial REIT)
3. TSX:HOM.U (BSR Real Estate Investment Trust)

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