3 Undervalued REITs to Buy Today and Profit From in 2020

Description

The popularity of real estate investment trusts (REITs) has exploded over the last decade as a mix of historically low interest rates and an increasingly uncertain economic outlook has made high-yielding, lower-volatility stocks appealing investments. Canadian REITs are required to pay out most of their taxable income to unitholders to qualify for preferential tax treatment and not be subject to income tax. That means many are paying distributions with yields well in excess of 4%, making them highly attractive investments for income-hungry investors, which is further enhanced by their low volatility relative to other stocks.

Typically, high-quality REITs trade at a premium to their net asset value (NAV), meaning that capital gains tend to be low and less than those generated by other asset classes. Here, however, are three quality REITs I have identified which are trading at a significant discount to their NAVs, indicating that in conjunction with their juicy yields, there are considerable capital gains ahead for investors.

Globally diversified property portfolio

Brookfield Property Partners (TSX:BPY.UN)(NASDAQ:BPY) is a leading REIT that is essentially **Brookfield Asset Management's** property management business. It owns a globally diversified portfolio of commercial properties including a number of world-recognized marque assets: Brookfield Place New York, Principal Place London, and Fashion Show Mall Las Vegas.

Brookfield Property also reported some solid second-quarter 2019 numbers, including an impressive 24% year-over-year increase in net operating income (NOI), and that company funds from operations (FFO) had shot up by a healthy 36%. It finished the second quarter 2019 with an occupancy rate of 91.5% for its core office portfolio and 95% for its core retail properties.

Brookfield Property's appeal as an investment is underscored by the sustainable quarterly distribution, which is yielding a very attractive 7%. While that is a handy yield to earn on any income-paying investment, it is the fact that even after gaining 17% for the year to date Brookfield Property is trading at a 40% discount to its NAV. That highlights the considerable upside available, making now the time to buy.

Discounted diversified REIT

Artis Real Estate Investment Trust (TSX:AX.UN) owns a portfolio of commercial assets encompassing office, industrial, and retail properties which are responsible for 41%, 46%, and 13% of its gross leasable area (GLA), respectively. By the end of the second quarter 2019, Artis had an occupancy rate 94.7%, which was a 0.6% improvement from a year earlier.

Artis is engaged in a range of activities to enhance its portfolio and deliver value for unitholders, including the sale of mature non-core assets, buying back units, strengthening its balance sheet, and developing core properties.

The REIT pays a monthly sustainable distribution yielding 4%. While that may not be exactly attention grabbing, the fact that Artis is trading at a 22% discount to its NAV underscores how much upside is available. Even the 36% run up in its stock since the start of 2019 has done little to close the gap, highlighting that Artis is an extremely appealing investment at this time, making now the time to buy.

Gradually unlocking value

A REIT that has struggled to deliver value for some time is **Slate Office REIT** (TSX:SOT.UN). Even after slashing its distribution earlier this year, it is yielding a juicy 6%. Its second-quarter 2019 results demonstrate that Slate Office's strategy to re-position its business and unlock value is finally taking effect. The REIT's NOI grew by 1.6% year over year, AFFO expanded by 4%, and net income soared by an impressive 61%.

Importantly, the distribution has a conservative forward payout ratio, after the cut earlier this year, of 62%, indicating that it is clearly sustainable.

Slate Office is trading at a 27% discount to its NAV of $8.53 per unit, underscoring that it is deeply undervalued by the market, making now the time to buy. The market's failure to recognize Slate Office's indicative fair value is a reason that management have embarked upon a unit buyback as part of the strategy to deliver value. By the end of the second quarter, Slate had bought and cancelled 2.1 million of its units, and this will continue until 10% of the REIT's total float has been purchased, which will help to boost the market value.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:AX.UN (Artis Real Estate Investment Trust)
2. TSX:BPY.UN (Brookfield Property Partners)
3. TSX:RPR.UN (Ravelin Properties REIT)

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