



Buy This REIT Yielding a Juicy 5.5% to Recession-Proof Your Portfolio

Description

Despite the U.S. Federal Reserve's latest interest rate cut and growing speculation that the trade war between the U.S. and China could shortly be resolved, there are signs that the global economic outlook is not as optimistic as markets believe. That makes now the time to consider weather-proofing your portfolio [against rising](#) geopolitical and economic risk.

One type of stock that should be considered is a real estate investment trust (REIT). Typically, REITs exhibit low levels of volatility and are resistant to economic downturns because they invest in real estate, which is a hard asset. On top of that, REITs are required to pay out most of their earnings to investors to retain their favourable tax status, meaning that many have regular distributions with juicy yields of 4% or more.

A REIT that stands out for all the right reasons is **WPT Industrial REIT** (TSX:WIR.U), which has only gained a modest 6% since the start of 2019 despite an improved outlook. This has created an opportunity to gain exposure to a class of real estate that is experiencing solid demand growth and which will boost WPT's earnings.

Solid results

WPT finished the third quarter 2019 with an impressive occupancy ratio of 99.5%, which was 1.4% greater than for the equivalent period in 2018. That, along with initiatives aimed at boosting profitability including higher rental income, developing existing properties, reduced financing costs, and recent acquisitions gave earnings a healthy boost. WPT's funds from operations (FFO) for the third quarter 2019 soared by 30% year over year while adjusted funds from operations (AFFO) shot up by 21% and net income spiked by a notable 43%.

There is every indication that WPT will experience further solid earnings growth. The transformation underway in the retail industry triggered by e-commerce and the rapid growth of online shopping has created strong demand for light industrial properties that will push rents as well as property valuations higher.

WPT also remains focused on expanding its portfolio through opportunistic and accretive acquisitions, including the purchase of four U.S. properties for US\$109 million in August.

The REIT's earnings are stable because of their contracted nature and WPT's high-quality tenants, which include major corporations such as General Mills, Amazon.com, Unilever, and Continental Tire.

WPT has a solid balance sheet with a total debt to gross book value ratio of 49.6% and a well-laddered debt profile with no major maturities until 2023, boding well for its financial flexibility. In addition to having solid defensive credentials and its notable growth profile, WPT is an attractive investment because it pays a regular sustainable monthly distribution yielding a very tasty 5.5%.

The REIT is also attractively valued because it is trading at a very low 5% premium to its book value of US\$13.09 per unit. It is quite rare to find a quality REIT like WPT that is trading at such a shallow premium to its book value. There is every indication that WPT's book value will continue to grow because of the latest acquisitions and rising asset values for industrial real estate.

Foolish takeaway

WPT is an [attractively valued](#) play on the retail apocalypse and growing demand for light industrial properties sparked by the rapid growth of e-commerce. The contracted nature of its earnings, quality tenants, and wide economic moat endows it with solid defensive characteristics, making it an ideal investment to hedge against an economic downturn. While investors wait for WPT's stock to appreciate, they will be rewarded by the sustainable distribution yielding 5.5%.

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