



Buy This Top REIT Yielding 5% Today and Profit in 2020

Description

One of the best-performing Canadian real estate investment trusts (REITs) for 2019 was **Dream Industrial REIT** ([TSX:DIR.UN](#)), which gained a healthy 39% over the course of the year. This has triggered speculation that now is the time to sell the REIT and take profits. While that makes sense, it could be a premature decision, because there are signs of further [gains ahead](#) for Dream Industrial.

Quality property portfolio

The REIT owns and operates a diverse Canadian portfolio of light industrial real estate, which is experiencing a strong surge in demand because of increased need for logistics centres due to the rapid expansion of online retail sales. Dream Industrial's occupancy rate has remained steady for some time and was 96.2% at the end of the third quarter 2019 compared to 96.8% for the equivalent period in 2018.

Growing demand for light industrial property coupled with a supply shortage should lift Dream Industrial's occupancy rate as well as rents, thereby boosting income. While net income for the first nine months fell by 20% year over year to just under \$73 million, Dream Industrial's net rental income grew by 22% to \$103 million, and its funds from operations (FFO) soared by a healthy 24% to \$79 million.

Dream Industrial's earnings will continue to grow throughout 2020. It completed two acquisitions during the second half of 2019, including a multi-tenant industrial property in Ottawa for \$33 million and the \$8 million purchase of the remaining 50% of six co-owned properties in Saskatchewan.

Dream Industrial also has a \$300 million acquisition pipeline and entered a U.S. joint venture with PAULS Corp in Las Vegas to develop 24 acres of land. As those deals are bedded down and further acquisitions made, Dream Industrial's earnings will expand, further boosting its market value.

Those deals, along with the growing value of Dream Industrial's properties, will also boost its net asset value (NAV). By the end of the third quarter, its NAV had risen by almost 10% year over year to be \$11.09 per unit. Dream Industrial trades at a modest 16% premium to its NAV, and the growing value

of its portfolio will further boost its market price.

The REIT also completed a series of divestments in 2019, as it moved to pivot its portfolio to growth and unlock further value for unitholders. The proceeds of those sales were used to fund acquisitions and strengthen its balance sheet.

Dream Industrial's net debt, at the end of the third quarter 2019, fell to just over five times EBITDA compared to seven times at the end of the equivalent period in 2018. The REIT's net debt-to-assets ratio was a mere 31.4% at the end of the third quarter compared to 44.3% a year earlier, further illustrating that it has made significant progress with strengthening its balance sheet.

A healthier balance sheet endows Dream Industrial with greater financial flexibility and further supports the sustainability of its distribution.

Dream Industrial rewards unitholders with a regular monthly distribution, which has a juicy annual yield of just over 5%. The payment is sustainable when it is considered that the REIT had an FFO payout ratio of 91.6% for the third quarter, which falls to 87.2% for the first nine months of 2019. That ratio will decrease further as earnings and FFO grow because of the latest property acquisitions.

Foolish takeaway

Dream Industrial is an attractively valued play on firmer demand for light industrial property. A combination of higher asset prices, growing rents, and recent asset purchases [will boost](#) its NAV and earnings, giving its market value a solid lift. Patient investors will be rewarded by Dream Industrial's sustainable distribution, which is yielding a very tasty 5%.

CATEGORY

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2. Investing

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1. Editor's Choice

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