Lazy Landlords: Boost Your Returns With Commercial REITs

Description

Real estate is probably the most intuitive asset class for most investors. Everyone understands the dynamics of buying, renting, renovating and selling properties.

However, much of the focus is usually on residential properties, which is why the residential market has become so overvalued in recent years.

Instead, I believe savvy investors should focus on underappreciated and potentially more lucrative commercial real estate investment trusts (REITs) like the ones below.

Office spaces

There's a severe shortage of office space in the country's metropolitan regions. The vacancy rate in Toronto hit a record low of 2.9% last year. Similarly, businesses in Ottawa, Montreal and Vancouver are expanding faster than developers can build office units for their teams.

This puts **Dream Office REIT** (TSX:D.UN) in a particularly favourable position. The firm manages four million square feet of office space, much of which is in the Greater Toronto Area (GTA).

According to the company's latest filing, the rent agreements on these properties are generally 4.9 years long and the rental rate is nearly 21% higher than the market average. The vacancy rate in the third quarter of 2019 was a mere 2.8%.

The stock has surged an astounding 42% over the past year. Unfortunately, that's pushed the dividend yield down to just 3.9%. I'm monitoring the stock closely to perhaps add some exposure if the price drops to a reasonable level.

Medical facilities

Unlike residential and office space, medical facilities are immune to the wider business cycle. People need medical attention regardless of what the economy is doing. That's what makes **NorthWest Healthcare Properties**

(TSX:NWH.UN) such a robust dividend stock.

At the moment, the trust offers a 6.6% dividend yield, double the average yield of the **TSX 60 index** . What I like about the dividend beyond the impressive yield is that it seems to be backed by a lucrative business model and diversified portfolio.

Apart from Canada, NorthWest's property portfolio is spread across multiple countries, including Germany, Brazil, New Zealand, Australia and the Netherlands.

The average lease term on its properties is far higher than other commercial units: 13.7 years. That makes the underlying cash flows predictable and reliable over the medium term.

According to its latest filing, the occupancy rate was 97% and roughly 72% of current leases are indexed to inflation in their respective countries, which means the downside is limited. NorthWest certainly deserves a spot on most dividend portfolios.

Warehouses

Summit Industrial Income REIT (TSX:SMU.UN) focuses on a specific niche of the commercial real estate market: light industrial units.

This means it owns and manages units that serve as warehouses, storage spaces, product assembly plants, shipping distribution centers, call centers and technical support quarters. These types of properties generate higher rents and cost less to operate.

With the rise of e-commerce, drop shipping and software sales, these units are in greater demand than ever before. The occupancy level for the first nine months of 2019 was remarkably strong at 99.5%.

The average lease term is 5.8 years and the agreements include a steady rent appreciation of 1.5% per year.

The strong economics of this industry allows the company to offer a 4.4% dividend yield, which I expect to expand over time as cash flows grow.

Meanwhile, the stock price has doubled over the past five years. Investors seeking a combination of capital appreciation and steady income should certainly add this stock to their watch list.

CATEGORY

1. Cannabis Stocks

TICKERS GLOBAL

1. TSX:D.UN (Dream Office Real Estate Investment Trust)
2. TSX:NWH.UN (NorthWest Healthcare Properties Real Estate Investment Trust)
3. TSX:SMU.UN (Summit Industrial Income REIT)

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vraisinghani