Buy This REIT Yielding 4% Today and Beat the Market in 2020

Description

The popularity of real estate investment trusts (REITs) soared in 2019 as near historically low interest rates and growing volatility saw investors look for higher yields among less volatile assets.

This saw many Canadian REITs, including **Dream Industrial** which gained 36% during 2019, surge in value. Another REIT that delivered solid gains for unitholders was **Artis Real Estate Investment Trust** (TSX:AX.UN).

Artis soared by 28% during 2019, beating the **S&P/TSX Composite Index**, which only returned 19%. Artis recently pulled back, creating an opportunity for investors to acquire a quality REIT that possesses solid growth potential and thereby lock-in a juicy 4% yield.

Strategic turnaround

In 2018, Artis embarked on a strategy aimed at streamlining its operations, strengthening its balance sheet, divesting non-core assets and unlocking value from its extensive real estate portfolio.

By the end of the third quarter, Artis had sold or has sales contracts in place for 14 properties for proceeds totalling almost $534 million. Those funds are being used to develop existing properties, make accretive acquisitions and reduce debt.

Artis is targeting a debt to gross book value ratio of 45% by the end of 2021, and for the third quarter reported a ratio of 51.8%, indicating that there is some way to go until that number is achieved.

The REIT’s long-term debt and related liabilities by the end of the third quarter has fallen by almost 6% year over year to $2.1 billion, indicating that Artis is moving toward its goal of significantly reducing the amount of debt compared to its asset value.

While third-quarter net operating income (NOI), funds from operations (FFO) and adjusted funds from operations (AFFO) all fell by 0.6%, 3.7%, and 4.8% year over year, respectively, the REIT is focusedon boosting funds flow and earnings.

Upon completion of the strategic initiatives currently underway slated for completion in 2021, Artis expects the NOI generated from Canada will fall to 40%, while it will increase to 60% for the U.S.

The REIT also plans to reduce its exposure to retail and office properties, which will see NOI from those assets fall to 15% and 45%, respectively, while boosting its investment in industrial real estate.

These are positive moves to grow earnings over the long-term because the U.S. economy typically outperforms Canada's economy. The demand for industrial properties is soaring because of the growing requirement for logistics centres triggered by the rapid expansion of e-commerce and online shopping.

Global online retail sales are expected to expand in value by 85% between the end of 2019 and 2023, serving as a powerful tailwind for REITs that own quality portfolios of light industrial properties.

Attractively valued

What makes now an ideal time to buy Artis is that it is trading at a 29% discount to its net asset value of $15.72 per unit, thereby highlighting the upside available. It's rare to find a REIT with quality assets like Artis, emphasizing why now is the time to buy.

The disconnect between the REIT's NAV and its market value has seen Artis launch a unit buyback, where it intends to acquire up to 10% of its normal and preferred units, further boosting Artis' market value.

Foolish takeaway

Artis is an attractive diversified play on real estate, offering considerable upside because it's trading at a deep discount to its NAV. The REIT is focused on strategically realigning its business to unlock value from its real estate portfolio, which will boost earnings and returns for investors. For these reasons, Artis will likely beat the broader market in 2020, making now the time to buy.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:AX.UN (Artis Real Estate Investment Trust)

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