



This REIT – Which Gained 39% in 2019 – Will Beat the Market Again in 2020

Description

One of the best-performing Canadian real estate investment trusts (REIT) of 2019 was **Dream Industrial REIT** ([TSX:DIR.UN](#)). It gained an impressive 39% during the year compared to the broader market as represented by the **S&P/TSX Composite Index**, which rose by a more modest 19%. There are signs that Dream Industrial is attractively valued and poised to deliver [considerable value](#) for investors during 2020.

Solid results

Dream Industrial delivered some solid full-year 2019 results for investors. It finished the year with an occupancy rate of 95.8% which was slightly lower than the 97.1% reported a year earlier. That difference can be attributed to the REIT reconfiguring its portfolio in order to unlock further value for unitholders. Notably, 2019 net rental income grew by a healthy 22% year over year to \$139 million, while funds from operations (FFO) soared by 19% to \$105 million and net income shot up by 14% to \$179 million.

The solid growth of Dream Industrial's earnings can be attributed to the sale of non-core assets, the development of core properties, higher rents, and the growing demand for light industrial real estate. In fact, the ongoing retail apocalypse in which many traditional bricks-and-mortar retailers are failing at an ever-growing rate because of the rapid uptake of e-commerce and online retailing, will act as a powerful earnings tailwind.

Growing demand

Retail e-commerce sales between the end of 2019 and 2023 are expected to grow on average by over 21% annually, which will trigger an even greater demand for light industrial properties.

You see, while online retailing eliminates the need for [bricks-and-mortar](#) stores, it creates a large demand for warehouses and similar properties to be used as logistics and packaging centres. This has already been a key driver in the marked rise in rents for industrial properties because of existing supply

constraints and greater demand.

Another powerful growth driver for Dream Industrial is its planned expansion into Europe. Dream Industrial plans to do this by purchasing a portfolio of light industrial properties in the Netherlands and Germany for roughly \$327 million. The new properties have over 3.1 million square feet of total floor space and an average weighted lease of over five years

This is a particularly positive development because e-commerce has a far lower penetration rate in Western Europe than in North America, meaning that there is greater upside ahead when demand for light industrial properties surges. The strategy is expected to initially add \$0.02 to \$0.03 per unit to Dream Industrial's annual results.

A pleasing aspect of Dream Industrial's 2019 results is that it finished the year with a strong balance sheet as evident from its very low net-debt-to-assets ratio of 23.7%, which is almost 20% lower than a year earlier. It also had almost \$592 million in available liquidity, giving Dream Industrial considerable financial flexibility and the ability to fund its planned European expansion.

Dream Industrial's net asset value also grew during 2019, gaining a notable 12% year over year to \$11.76 per unit. The REIT's current market value only represents a modest 16% premium to its NAV, indicating that there is further upside ahead if asset values and earnings grow as planned.

The icing on the cake for investors is that Dream Industrial pays a sustainable monthly distribution yielding a juicy 5%. By utilizing the distribution reinvestment plan (DRIP), investors can purchase additional units, unlocking the power of compounding. This allows them to accelerate the rate at which they can generate wealth and achieve their financial goals.

Foolish takeaway

Because of their economic moats, reliable income, high yields, and resistance to economic downturns, REITs are an attractive investment in the current uncertain environment. Dream Industrial remains one of the best investments. It is actively working on unlocking further value for investors, boosting its NAV, and growing earnings, which will give its market value a solid lift. While investors wait for that to occur they will be rewarded by its sustainable distribution yielding a very tasty 5%.

CATEGORY

1. Dividend Stocks
2. Investing

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1. TSX:DIR.UN (Dream Industrial REIT)

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Author

mattsmith

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