Ignore the 2020 Market Crash: Invest $1,000 in This REIT Yielding 9% Today

Description

Aside from airline, retail and entertainment stock, Real Estate Investment Trusts (REITs) have been one of the hardest hit sectors of the latest market crash. This is evident from diversified Canadian REIT ETF **BMO Equal Weight REITs Index ETF** losing a whopping 40% over the last month.

That has been a somewhat surprising development, as REITs are usually viewed as being relatively immune to economic downturns because they invest in real estate.

Recent economic stimulus, including Bank of Canada slashing the headline interest rate by half a percentage point to 0.75%, has done little to bolster REITs. Such a cut, combined with historically low interest rates, would normally be a boon for companies operating in capital intensive industries like REITs, but it has done little to bolster their short-term outlook.

The decoupling of fundamentals from market value and the marked decline in value chalked up over the last month makes now the time to buy quality REITs with solid fundamentals.

One which has been hit particularly hard is **Dream Industrial REIT** (TSX:DIR.UN). It lost a stunning 44% over the last month, creating an opportunity to acquire a quality income paying stock yielding a very tasty 9%.

Strong tailwinds

There is very likelihood that Dream Industrial's stock will roar to life once coronavirus fears abate and the economic impact becomes clearer. Unlike many other REITs exposed to the retail sector, Dream Industrial owns light industrial real estate, and it is therefore not impacted by the storm engulfing bricks and mortar retailers and shopping malls.

Many retail REITs have already suffered significant declines in earnings because of the swathe of bankruptcies among bricks and mortar retailers. Bankruptcies have been on an upward trend since 2017 and the fallout from the coronavirus plus ensuing recession will cause that to accelerate.

This isn't an issue for Dream Industrial, however. The company will benefit from the rapid expansion of online retailing. While online retailers don't require a bricks and mortar store, they do need large logistics centres.

That need has triggered a sharp uptick in demand for light industrial properties in a market already suffering from supply constraints because of decades of under investment in industrial real estate. This will cause property values and rents to soar as online retail expands rapidly.

Ecommerce will prove relatively resistant to the fallout from the coronavirus pandemic. While social distancing and restrictions on movement will impact traditional retailers and shopping malls, with many forced to close to curb the spread of the virus, online retailing will benefit from consumers being restricted to their homes.

As online shopping grows, it will spark greater demand for logistics centres to keep pace with orders and delivery requirements.

Poised to rebound

Dream Industrial announced a solid 2019 performance, gaining 39% and outperforming the **S&P/TSX Composite Index**, which rose by only 19%. Once fears surrounding the coronavirus pandemic subside, Dream Industrial will rally strongly and outperform the broader market.

Aside from the growth of online retailing acting as a powerful long-term tailwind, the REIT possesses some solid fundamentals. Dream Industrial finished 2019 with a healthy 95.8% occupancy rate and a weighted average lease term of 4.1 years.

It also ended the year with a net debt to asset ratio of a very low 23.7%. Along with its interest coverage ratio of 3.8 times and net debt to adjusted EBITDAFV ratio of 4.3, that underscores the strength of Dream Industrial's balance sheet. Those characteristics position the REIT to weather the current storm in good shape.

Once the extreme fear abates, the full economic fallout from the coronavirus can be quantified and Dream Industrial will soar. The REIT has implemented strategies aimed at boosting market share. These include growing scale in core markets by completing over $370 million of acquisitions in 2019.

Dream Industrial also announced that it would be expanding into Europe, with Germany and the Netherlands being its initial focus, giving it access to Europe's largest economy in a market where demand for industrial properties is growing rapidly.

Looking ahead

Dream Industrial is a very attractive REIT to acquire, particularly because it is trading at a deep 41% discount to its net asset value (NAV). Patient investors will be rewarded by Dream Industrial's juicy 9% yield while they wait for its stock to rebound.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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

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mattdsmith