Buy Alert: This TSX REIT Is Set to Profit From Soaring E-Commerce Demand

Description

It might seem counter intuitive to invest in a REIT during a market crash when the retail industry is in crisis. After all, REITs profit from renting, leasing, or selling their properties.

Many REITs will suffer substantial losses in the coming months as their retail tenants receive free or reduced rent during this pandemic. However, there is one REIT set to profit from the soaring e-commerce demand.

WPT Real Estate Investment Trust

Like most stocks, shares of **WPT Real Estate Investment Trust** (TSX:WIR.U) got hammered in mid-March as investors realized the severity of the COVID-19 pandemic. But WPT has made impressive gains since that time.

As of this writing, the stock is trading at $10.69 per share, significantly higher than its recent low of $6.19. In fact, the stock traded around $13 for most of the past year, and it looks like the stock is well on its way to that level again. WPT currently has a dividend yield of 7.11%.

E-commerce demand is growing faster than expected

According to several real estate developers, the stay-at-home mandates have catapulted the e-commerce market. Steven McCraney, CEO of Florida-based developer McCraney Property Co., said, "The last six to eight weeks put e-commerce four years further ahead in its growth cycle than we expected it to be." McCraney made these comments during an interview about the growing shift to e-commerce.

While brick-and-mortar retailers are reeling with the crushing blow of this crisis, e-commerce sales are booming, sending big names like **Amazon**, **Home Depot**, **FedEx** and **UPS**, scrambling for space to set up distribution warehouses.

These companies are trying to take advantage of the economic slowdown and secure space for lease to meet the current, as well as projected, future demand.

This is good news for WPT. The company owns a portfolio of U.S. light industrial real estate. Amazon is one of its top 10 tenants.

WPT REIT's strong balance sheet

At the end of last year, WPT reported an occupancy rate of 99% with an average lease term of 4.9 years. The REIT ended 2019 with a debt to gross book value of 42.3%, an interest coverage ratio of 3.1 times, and debt of eight times adjusted EBITDA.

Prior to COVID-19, the demand for light industrial real estate was already exceeding supply due to the massive popularity of online shopping. The closure of most retail establishments during the coronavirus outbreak has dramatically increased this demand.

E-commerce companies require large logistic operations to support inventory, packaging, and delivery requirements. These square footage requirements are far greater than the square footage needs of traditional brick-and-mortar tenants.

This low volume of industrial real estate coupled with rising demand has created a growing shortage of appropriate properties. As the popularity of online shopping grows, that demand will increase further, causing prices and rents to rise, which is good news for REITs like WPT who specialize in exactly this type of real estate.

The bottom line

WPT is in the enviable position of being able to profit from the unique industrial needs created by the stay-at-home orders. The REIT may also benefit from government programs designed to assist rental properties during the economic crisis, as well as lower interest rates.

Falling interest rates reduce the cost of financing properties, thereby boosting profitability and earnings for WPT.

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