



1 Top Canadian REIT Yielding 6% Is on Sale Today

Description

Despite being among the best-performing Canadian real estate investment trusts (REITs) in 2019, **Artis Real Estate Investment Trust** ([TSX:AX.UN](#)) has failed to gain the attention it deserves. Since the start of 2020, it has lost 29%, as the coronavirus weighs on economic activity and the outlook for many businesses. As a result, Artis is attractively valued, making now the time to buy.

Strategic repositioning

In late 2018, the REIT disappointed investors by slashing its distribution by 50%, as it moved to strengthen its balance sheet, strategically realign its core portfolio, and unlock value for unitholders. Artis was making significant progress with repositioning its business and unlocking value. The strategy is focused on reducing exposure to retail and office real estate while boosting income from industrial properties.

Artis is also expanding its U.S. presence while downsizing its Canadian operations. Before the arrival of coronavirus, Artis would have benefitted from rapidly growing U.S. demand for light industrial real estate because of the rapid expansion of internet retailers. The deep economic downturn anticipated in the U.S., with some analysts predicting that the second-quarter 2020 gross domestic product could contract by up to 35%, will impact Artis's performance.

Demand for [light industrial](#) real estate is expected to remain strong, despite the coronavirus-induced economic downturn. This is because internet retailing is growing at a rapid clip. While government measures taken to curtail the spread of the coronavirus pandemic, such as shuttering non-essential businesses, are crushing [traditional retailers](#), they have been a boon for online retail.

That will drive greater demand for light industrial properties, leading to higher asset values and rents.

For these reasons, the expansion of online shopping and e-commerce in general will act as a powerful tailwind for Artis.

The pandemic will impact Artis's earnings, because the REIT has commenced a rent-deferral program

to assist tenants impacted by the coronavirus. Artis has earmarked \$4 million in rent deferrals for April and May. It expects to recoup the money once the pandemic ends.

The REIT is on sale

What makes Artis particularly attractive is that it is trading at a deep 83% discount to its net asset value of \$15.56 per unit. The market's failure to recognize the REIT's indicative fair value saw management commence a unit buyback. Artis stock will firm once the impact of the coronavirus pandemic can be measured and the economy returns to growth.

Artis will emerge from the current crisis in solid shape. It possesses a strong balance sheet. Artis's long-term debt is a conservative 51% of total gross book value of 51% and just under nine times EBITDA.

Foolish takeaway

The discount applied to Artis's units coupled with its quality property portfolio and solid balance sheet has attracted the attention of potential suitors. The REIT has yet to make any announcements, but Artis is undertaking a strategic view of its operations to identify how to create further value for unitholders.

Patient investors will be rewarded by Artis's regular distribution, which yields 6%. That payment is sustainable, as evident from Artis's payout ratio of 51.4% of adjusted funds from operations.

CATEGORY

1. Dividend Stocks
2. Investing

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

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