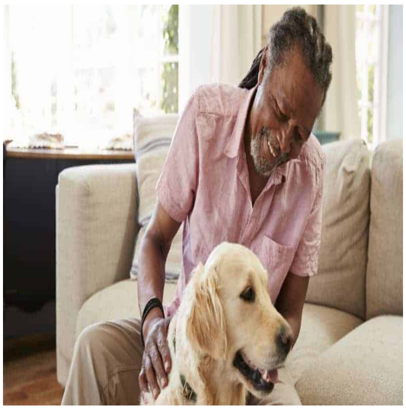

Retirees: Get Safe Income From This Stable REIT

Description

Real estate investment trusts (REITs) are good to consider for income. Across the REIT industries, industrial REITs are lower-risk investments with relatively stable occupancy, especially amid the disruptions COVID-19 brings.

That's why retirees should take a closer look at **Granite Real Estate Investment Trust** (TSX:GRT.UN).

The business

Granite REIT's real estate portfolio consists of approximately 85 income-producing logistics, warehouse, and industrial properties in North America and Europe.

It's engaged in the acquisition, development, ownership, and management of these properties.

Granite REIT's portfolio comprises more than 40 million square feet. About 65% is in North America (50% in the United States and 15% in Canada) and 35% in seven European countries, largely in Germany (11 properties across 3.5 million square feet) and Austria (11 properties across 8.1 million square feet). Its portfolio has an occupancy of 99% and a weighted average lease term of roughly six years.

The REIT recognizes its concentration in **Magna** as its largest tenant and has reduced its exposure to it to 41% of its annualized revenue. The tenant makes up 35% of its gross leasable area.

Its top 10 tenants generate 66% of its annualized revenue, including 7% from its second-largest tenant, **Amazon**.

Dividend safety

A top priority for retirees is the safety of their income. Granite REIT is in the solid industrial REIT industry with growth prospects from e-commerce. That's why it has been healthily increasing its cash distribution for the past nine years with a decent five-year dividend-growth rate of about 5%, which is an admirable rate of growth in the REIT world.

Currently, it offers a monthly cash distribution that equates to an annualized payout of $2.904. The monthly dividend is 3.9% higher year over year.

At $66.76 per share at writing, Granite REIT offers a safe yield of 4.3%. Its first-quarter payout ratio was 69%, which was an improvement from 79% a year ago.

Recent results

In 2019, Granite REIT increased its scale in target markets by making acquisitions that totaled $960 million. It also expanded its portfolio through $27 million of development projects.

Compared to a year ago, in the first quarter, the REIT reported revenue growth of 23% to $78 million, net operating income growth of 23% to $68 million, and funds from operations (FFO) growth of 40% to $57 million.

Despite the company increasing its outstanding shares meaningfully by 18%, it managed to increase its FFO per share by 18% to $1.05. This is evidence that Granite is creating shareholder value and making good capital allocation.

Its debt metrics are also strong — it has a net leverage ratio of 22%, a high interest coverage ratio of 10.4 times, and an indebtedness ratio of 5.9 times (an improvement from 6.1 times a year ago).

The actual impacts of the COVID-19 pandemic have yet to be reflected in subsequent quarters. That said, so far, it seems there has been little impact on the REIT. It has collected 99% and at least 95%, respectively, of the rents in April and May.

The Foolish takeaway

Granite REIT is a good addition to retirees' diversified income portfolios. The industrial REIT offers a safe yield of 4.3% and growth potential from the e-commerce trend.

Additionally, analysts have a mean 12-month price target of $75.80 per share on the REIT, which represents more than 13% near-term upside potential. Keep in mind that the REIT would be an even better buy on meaningful dips to $58 per share or lower.

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