Buy Dream Industrial REIT for a 5.7% Yield and More!

Description

Real estate investment trusts (REITs) have taken a hit from rising interest rates. In particular, **Dream Industrial REIT** (TSX:DIR.UN) stock tumbled about 31% from its 52-week and all-time high. It now trades at a cheap valuation and offers good income.

The industrial REIT has about 257 assets across 46 million square feet with a high occupancy rate of about 99%. The weighted average lease term for the portfolio is 4.7 years. Roughly 63% of its portfolio is in Canada and 37% is in Europe. Its portfolio is diversified with no tenant contributing more than 3% of its gross rental revenue. It also has a stake of roughly 21.5% in a private industrial fund in U.S. that had an occupancy rate of 100% at the end of the second quarter (Q2).

Dream Industrial REIT still enjoys low interest rates

Higher interest rates haven't impacted Dream Industrial REIT yet. At the end of Q2, its weighted average face interest rate on its debt was only 1.01%, helped by the impact of cross-currency interest rate swaps. The industrial REIT's trailing 12-month interest expense was under $30.6 million — almost 36% lower than in 2019.

Growth strategy

Dream Industrial REIT has multiple ways to grow. Over the years, it has built a strong position in its core markets of the Greater Toronto Area (GTA) and the Greater Montreal Area. It's involved with both acquisitions and development.

It's always on the lookout for income-producing assets, particularly those with intensification opportunities on which it can surface greater value.

On the development front, in its 2021 annual report, it highlighted that it acquired more than 65 acres of land in the GTA and Cambridge, which it forecast will "yield over one million square feet of high-quality logistics products" between 2023 and 2024. Around the end of 2021, it also acquired an additional 80 acres primarily in Calgary (and some in the GTA) that would add another “one million square feet in the medium term.”

During 2021, the team “signed five million square feet of leases at a 19% spread over the expiring or prior rental rate.” The demand for industrial spaces seems to continue to be greater than supply in its core markets, as at the end of Q2, management estimated rent spreads of 42.2% for its Canadian portfolio and 5.2% for its European portfolio. So, it looks like it could continue achieving strong leasing spreads in the near term.

At the end of 2021, Dream Industrial REIT also had an average annual rental escalation of almost 2.5% for its Canadian leases, while its European leases were largely (close to 90%) indexed to inflation.

Valuation is attractive

Dream Industrial REIT now trades at a meaningful discount of approximately 27% from its end-of-Q2 net asset value of $16.64 per unit. In the first half of the year, the REIT increased its funds from operations per unit by 13%, resulting in an improved payout ratio of 81% (versus 92% a year ago). At $12.11 per unit, it also offers a nice juicy yield of just over 5.7%.

Its fundamentals remain strong, its valuation has come down, and growth is expected to continue. Dream Industrial can be a nice addition to any investment portfolio as a value pick that has growth potential and pays good income in the form of a monthly cash distribution.

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Date
2025/08/19
Date Created
2022/09/15
Author
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