1 Cheap Industrial Stock to Buy Now and Never Sell

Description

It's a tough environment for investors. Inflation is surging while the economy is slowing down and real estate prices collapse. Most sectors of the economy could see lower profits and sluggish growth in 2023. However, one sector seems particularly attractive for institutional investors.

Here's why smart money is buying industrial real estate and why investors should add a cheap industrial stock to their portfolio in the New Year.

Industrial real estate

The housing shortage is well-known. Canadian developers simply haven't built enough housing for young families and new immigrants for several decades. That's pushed prices up. Likewise, the industrial real estate market is similarly undersupplied.

Developers overlooked the boom in e-commerce and last-mile deliveries in recent years. Canada's warehouse and distribution space lags behind the United States. Meanwhile, demand is surging.

The vacancy rate for industrial properties across the country was just 1.5% in the third quarter of 2022, according to a report by **CBRE**. That's a historic low. The lack of available space has pushed rental rates through the roof. Meanwhile, the valuation of these industrial properties is more resistant to inflationary pressure.

In other words, these units are more lucrative and valuable despite the current economic conditions. That's why the sector has attracted billions in recent investment from heavyweight investors such as **Blackstone** and **Prologis**. Retail investors should pay attention to this trend and follow the smart money.

Canadian industrial REIT

There are several publicly listed industrial real estate investment trusts (REITs) in Canada, but **Dream Industrial REIT** (TSX:DIR.U) is probably the gold standard.

Dream is one of the largest real estate companies in the country. The firm's industrial assets include 46.5 million square feet of leasable industrial land spread across 258 locations in Canada, Europe, and the U.S.

Occupancy has surged in recent years and currently stands at 99%. Meanwhile, the portfolio is estimated to be worth U.S.$6.5 billion (C$8.8 billion). Meanwhile, Dream stock has lost 28% of its value year to date, leaving the market capitalization at just U.S.$3.1 billion. Put simply, the company is worth half its net asset value.

The REIT offers an attractive 5.8% dividend yield at the moment. These dividends are paid out on a monthly basis, which is ideal for investors seeking passive income. If industrial rental yields climb next year, I expect dividends to grow further.

Investors have the perfect opportunity to add exposure to this robust sector at a discount to fair value.

Bottom line

Canada's industrial real estate sector is in a unique position. There's less warehouse and factory space here than in other developed nations. Meanwhile, the e-commerce and logistics business has experienced a boom in recent years. It's a tight market with robust hard assets and recurring income.

Investors should consider buying Dream Industrial REIT for exposure.

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2. NYSE:CBRE (CBRE Group)
3. NYSE:PLD (Prologis Inc.)
4. TSX:DIR.UN (Dream Industrial REIT)

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