



## Could This 10% Yielding REIT Double Your Money?

### Description

**True North Commercial Real Estate Investment Trust** ([TSX:TNT.UN](#)) units started off 2023 trading with a 3.5% gain on Tuesday. If the trust holds its gain for the remainder of the year, investors could walk away with a nearly 14% total return for 2023. Interestingly, given a near 10% distribution yield, investors may double their money in under eight years without any further capital gains – or so it seems.

However, that may not be the case. True North Commercial REIT's distribution could get cut, and units could trade lower if portfolio occupancy rates continue to decline, interest rates rise further, and market sentiment remains tame this year.

### What makes True North Commercial REIT attractive

True North Commercial REIT is a pure-play office [REIT](#) that holds a portfolio of 47 properties comprising five million square feet of gross leasable area (GLA). Before the COVID-19 pandemic, the trust boasted a strong 98% portfolio occupancy rate – its office properties were almost fully occupied. Fast forward to September 2022 and occupancy rates have declined sequentially to 94.6%. The trend could persist in 2023.

The pandemic forced many to work from home for a while. Although workers have largely returned to work, some companies discovered that hybrid work designs can actually work, and tenants are downsizing their office space requirements. Office REITs are in a tight corner, and True North Commercial REIT is no exception. But it pays its investors very well – for now.

The trust pays out a \$0.05 per unit distribution per month which, post Tuesday's rally, still yields a staggering 9.9% per annum. True North REIT's high distribution yield could make it a beautiful passive income play.

Investors who buy TNT.UN units could easily double their money in under eight short years just by reinvesting the dividend – the [Rule of 72](#) estimates doubling in about 7.2 years.

Could True North REIT stock sustain the distribution and really double your money?

## Earnings improvement seems unsustainable

The trust reported 7% growth in same property net operating income (NOI) for the first nine months of 2022. However, the improvement was essentially a result of lease termination fees – a rather undesirable source of income.

Some of the REIT's tenants downsized their office space requirements. They paid lease termination fees (penalties) for cutting short their rental agreements. Excluding termination fees, same property NOI could have decreased by 2.1% for the first three quarters of last year.

Lease termination fees are an undesirable source of income growth. They result from tenants' falling demand for office space. This fall-off depicts a deteriorating tenant portfolio. Tenants will pay less rent. Releasing the vacant space is an expensive exercise. And declining occupancy rates could mean trouble for the REIT's distribution sooner or later.

## Should you buy True North REIT for the 10% yield?

True North REIT reported a significantly improved distribution quality for the first nine months of 2022. However, posted payout rates could be misleading, and the distribution is more at risk of being cut than ever before.

The REIT paid out 95% of its adjusted funds from operations (AFFO) during the first three quarters of last year, an improvement from 105% during the same period in 2021. AFFO represents funds that the trust can sustainably pay out to investors as distributions. However, True North REIT's true AFFO payout rate was much higher once we adjusted for one-time items.

Excluding termination fees, the trust's AFFO payout rate would be 112% for the first nine months of last year, up from 105% in 2021. The distribution's safety has not improved; it worsened during the past year.

Although the trust still has a good quality tenant base and 80% of its rental revenue comes from government and credit-rated tenants, its distribution may need a reality check. Declining occupancy rates will starve the portfolio of revenue while rising interest rates eat into its distributable cash flow as interest costs continue to rise.

Most noteworthy, True North REIT is one of Canada's heavily leveraged real estate trusts. It has a debt-to-gross book value (GBV) of 58.4%, with a weighted time to maturity of 3.3 years. The trust is refinancing debt at higher rates, and debt servicing costs are rising while its ability to pay interest may be slowly impaired by declining portfolio occupancy rates.

It may be a matter of time before True North Commercial REIT is forced to cut its monthly distribution.

### CATEGORY

1. Dividend Stocks

2. Investing

## **TICKERS GLOBAL**

1. TSX:TNT.UN (True North Commercial Real Estate Investment Trust)

## **PARTNER-FEEDS**

1. Business Insider
2. Flipboard
3. Koyfin
4. Msn
5. Newscred
6. Quote Media
7. Sharewise
8. Smart News
9. Yahoo CA

## **PP NOTIFY USER**

1. brianparadza
2. cleona

## **Category**

1. Dividend Stocks
2. Investing

## **Date**

2025/09/27

## **Date Created**

2023/01/04

## **Author**

brianparadza

default watermark

default watermark