A TFSA Investor's Dream: This REIT Is a Must Buy for 2023

Description

Investors looking for reliable passive income and potential capital growth in 2023 may want to check out **Dream Industrial Real Estate Investment Trust** (TSX:DIR.UN). The Canadian real estate investment trust (REIT) is well primed to rock one's real estate or dividend portfolio. Its upcoming strategic transaction could unlock immediate growth in distributable income in 2023. I'm bullish on DIR units as a monthly-pay dividend play that may grow investors' capital this year.

Going into the fourth quarter of last year, Dream Industrial REIT held a portfolio of 258 properties totaling 46.5 million square feet of gross leasable area located in Canada, Europe, and the United States. Its properties are primarily distribution and urban logistics centres in high demand in a post-COVID-19 pandemic era.

High tenant demand at Dream Industrial REIT's properties

Companies are moving to own and control a larger proportion of their supply chains post the horrible shortages and logistics nightmares of 2021. Tenants are willing to pay top rent for logistics and distribution facilities. So not surprisingly, Dream Industrial REIT had a strong occupancy rate of 99% going into the fourth quarter of 2022.

Most noteworthy, DIR reported some of the best leasing deals during the past year. The trust properties were highly sought. Dream Industrial REIT renewed leases and signed new rent agreements at rental rates 38.6% higher than expiring rents. Its portfolio's in-place base rents exceeded market rents by nearly 30% during the third quarter of last year.

High occupancy and strong rent bargaining power are desirable qualities for a landlord. Dream Industrial REIT passes the cash flow benefits to its investors while still empowered to develop more in-demand properties in its geographic markets.

And the trust recently signed on a new development partner with deep pockets.

Key Joint Venture and Summit II acquisition accretive deals for DIR investors

Dream Industrial REIT's recent joint venture with a Singapore sovereign wealth fund GIC could open immense growth opportunities for the trust. The JV will acquire all the assets of a star competitor **Summit Industrial Income REIT** (Summit II) in a $5.9 billion all-cash transaction. Parties could close the deal during the first quarter of this year.

Although DIR's equity share in the joint venture will be a minority of 10%, the trust will offer asset management services to the JV at *prevailing market rates*. Management expects the deal to be immediately accretive to Dream Industrial REIT's funds from operations (FFO).

How could it not? The acquisition of Summit Industrial Income REIT will double DIR's scale of its Canadian industrial portfolio under management. Further, the deal brings a new source of regular income. It could also increase DIR's total development pipeline from 6.5 million square feet to 11.1 million square feet on a 100% basis.

Further, DIR will manage 69 million square feet across Canada, the U.S.A., and Europe, including 32 million square feet on behalf of its institutional clients in North America. The trust had a 46.5-million-square-feet footprint in September last year. It could become the largest industrial property manager in Canada. Income from property management and leasing fees may increase over time as the net rental income of the properties grows.

Dream Industrial REIT's long-term growth prospects will be stronger given Summit II's strong growth profile. It has generated more business for itself while adding a new source of growth capital to its portfolio of potential financial partners. The two JV partners could work together on new growth projects in DIR's areas of expertise, an area in which the Dream team has more than 25 years of experience

Should you invest?

An investment in Dream Industrial REIT units could earn you $0.058 per unit every month in income distributions. The distribution should yield 5.44% for 2023. The distribution seems well covered as it comprises only 78.9% of the trust's funds from operations during the first nine months of last year. Further, DIR units appear significantly undervalued. The trust recently estimated its net asset value per unit at $17.05. The market currently prices DIR.UN units at a 25% discount to their NAV.

Perhaps it's time to buy the dip and stash the high-quality REIT in a tax-free savings account (TFSA) before units recover throughout 2023. REITs do well in a TFSA. Their income distributions are generally taxed at your marginal tax rate. They may offer better returns in a TFSA.

CATEGORY

1. Dividend Stocks
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1. TSX:DIR.UN (Dream Industrial REIT)

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