



# Top 10 REITs

## September 2021 Edition

A monthly special report service from Sure Dividend

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## Top 10 REITs – September 2021

Name & Ticker	Payout Ratio	# Years Div. Increases	Div. Yield	Exp. Value Return	Exp. Growth Return	Exp. Total Return
<a href="#">SL Green Realty (SLG)</a>	56%	10	5.3%	4.3%	5.0%	13.4%
<a href="#">Omega Healthcare (OHI)</a>	81%	18	8.3%	4.3%	2.0%	12.3%
<a href="#">Alpine Income Property (PINE)</a>	68%	2	5.3%	-0.1%	7.0%	11.6%
<a href="#">CareTrust (CTRE)</a>	71%	5	4.9%	0.2%	5.5%	9.9%
<a href="#">Four Corners Property (FCPT)</a>	83%	4	4.7%	1.1%	5.0%	9.8%
<a href="#">Piedmont Office Realty (PDM)</a>	44%	0	4.9%	1.9%	2.2%	8.1%
<a href="#">Medical Properties Trust (MPW)</a>	64%	9	5.5%	1.5%	1.6%	8.1%
<a href="#">Highwoods Properties (HIW)</a>	54%	4	4.5%	1.5%	2.5%	7.8%
<a href="#">Industrial Logistics Prop. (ILPT)</a>	70%	0	5.1%	-0.7%	3.0%	6.8%
<a href="#">Realty Income (O)</a>	79%	26	4.1%	-1.3%	4.0%	6.5%

**Notes:** Data for the table above is from the 9/17/21 spreadsheet of our [Sure Analysis Research Database](#). 'Div.' stands for 'Dividend.' '# Years Div. Increases' shows the consecutive years of dividend growth. 'Exp.' Stands for 'Expected.' Expected returns are annualized and based on 5-year forward projections. Data in the table above may be different than individual company analysis pages due to writing the company reports throughout the previous several days.

**Disclosures:** Quinn Mohammed is long OHI.

This is the first ever edition of The Top 10 REITs special report service. As a result, all Top 10 REITs are new recommendations this month. We will summarize changes in the Top 10 in future months in this portion of the special report.

An equally weighted portfolio of the Top 10 has the following future expected total return estimate characteristics:

	Top 10 REITs	S&P 500
<b>Dividend Yield:</b>	5.2%	1.3%
<b>Growth Rate:</b>	3.8%	5.5%
<b>Valuation Return:</b>	1.3%	-7.4%
<b>Expected Annual Total Returns:</b>	9.4%	-0.6%

**Note:** The S&P 500 expected annual total return calculation above is the simplified method which is the sum of dividend yield, growth rate, and valuation expected returns.

REITs have different tax consequences than stocks that trade as corporations. [Please see our REIT Tax Guide for more.](#)

Data for this edition is from 9/14/21 through 9/17/21. Please continue reading to see the Top 10 REITs analyzed in detail.

## **SL Green Realty Corp. (SLG)**

**Dividend Yield:** 5.3%

**5-Year Expected Annual Total Returns:** 13.4%

### **Overview & Current Events**

SL Green Realty Corp. (SLG) was formed in 1980. It is an integrated real estate investment trust (REIT) that is focused on acquiring, managing, and maximizing the value of Manhattan commercial properties. It is Manhattan's largest office landlord, with 77 buildings totaling 35 million square feet.

The pandemic has hurt several companies that are tenants of SLG. New York has one of the lowest rates of occupancy of office space in the U.S., with 19.5% occupancy right now. This has caused an unprecedented tenant-friendly environment and challenges to the business of SLG, but we expect the REIT to eventually fully recover from the pandemic.

SLG reported its financial results for the second quarter of 2021 on 7/21/21. Its same-store net operating income fell 2.7% over last year's quarter and its occupancy rate slipped sequentially from 94.2% to 93.6%. Its funds from operations (FFO) per share dipped 6% but only due to higher lease termination income in last year's quarter. Excluding this factor, FFO per share would have edged up 2%.

### **Safety & Dividend Risk Analysis**

SLG has 40 years of experience in Manhattan and hence it has great expertise in the area. It has raised its dividend for 10 consecutive years and is currently offering a 5.3% dividend yield. SLG is currently under pressure due to the pandemic, which has caused a work-from-home trend. However, the REIT has one of the strongest balance sheets in the REIT universe, as its net debt of \$5.6 billion is just 12 times its annual funds from operations. This is reflected in the strong BBB credit rating of SLG. Thanks to its financial strength, the REIT can endure the ongoing crisis and emerge stronger whenever the pandemic subsides. It can also maintain its attractive 5.3% dividend, which is well covered with a payout ratio of 56%. SLG is thus suitable for income-oriented investors who can wait patiently for the pandemic to subside.

### **Growth, Value, & Expected Total Return Analysis**

SLG benefits from reliable growth in rental rates in one of the most popular commercial areas in the world, Manhattan. The REIT pursues growth by acquiring attractive properties and raising rental rates in its existing properties. It signs multi-year contracts (7-15 years) with its tenants in order to secure reliable cash flows. SLG has grown its funds from operations per share at a 4.5% average annual rate in the last decade and at a 2.2% annual rate in the last five years. We expect 5% annual earnings growth over the next five years off this year's somewhat low level, which has resulted from the pandemic. Based on expected 2021 earnings-per-share of \$6.50, SLG trades for a price-to-earnings ratio (P/E) of 10.6. Our fair value estimate for SLG is a P/E of 13. An expanding P/E multiple could boost shareholder returns by 4.3% per year over the next five years. When the 5.0% earnings growth and 5.3% dividend yield are also added, we expect total annual returns of 13.4% per year over the next five years.

## Omega Healthcare Investors Inc. (OHI)

**Dividend Yield:** 8.3%

**5-Year Expected Annual Total Returns:** 12.3%

### Overview & Current Events

Omega Healthcare Investors (OHI) is a real estate investment trust (REIT) that invests in the long-term healthcare industry. Its focus is in skilled nursing and assisted living facilities, and its portfolio is primarily triple-net leases operated by healthcare providers. Omega has the majority of its properties in the United States but has a small presence in the United Kingdom as well. Omega was founded in 1992, produces about \$945 million in annual revenue, and trades with a market capitalization of \$7.7 billion.

Omega reported second-quarter earnings on August 2<sup>nd</sup>, 2021 and results were much better than expected, with records for both the top and bottom lines. Funds from operations (FFO) per share was 85 cents, besting estimates by two cents. Revenue was up to \$257 million, representing a fractional gain year-over-year, but well ahead of expectations for a revenue decline. The trust saw 98% of contractual rent and mortgage payments for July, 98% for Q2, and 99% for Q1 as collections have improved immensely since the worst of the pandemic.

Omega implemented a new at-the-market share offering worth up to \$1 billion and refinanced eight facilities to improve its capital structure. Following Q2 results, we now expect \$3.30 in FFO per share for this year, driven by strong rent collection trends and favorable capital recycling.

### Safety & Dividend Risk Analysis

Healthcare in general is much less cyclical during tough economic times than most sectors, simply because the vast majority of healthcare providers are non-discretionary, meaning customers need the service irrespective of economic conditions. Given that Omega is primarily exposed to skilled nursing and assisted living facilities, it performed quite well during the Great Recession, and we expect that to be the case during the next recession as well.

The trust's debt-to-equity ratio is elevated at 135% today, and the current run rate for interest expense is about \$235 million annually. Those are significant numbers, which is surely why Omega opts to issue new common shares to raise capital. The payout ratio, however, remains around 80% of FFO, so unless there's a sizable, as yet unseen headwind to FFO on the horizon, we think Omega's dividend is safe at current levels.

### Growth, Value, & Expected Total Return Analysis

We see Omega's growth at just 2% annually, which is well below its historical average of more than 5%. We like its exposure to the growing population of people that need assisted living, but tenant solvency issues and expensive financing have kept a lid on growth of late, and we believe this may persist.

Even so, the stock is quite cheap today at just 9.8 times FFO estimates for this year, well short of our estimate of fair value at 12 times FFO. That implies a 4%+ tailwind to total annual returns from the valuation, and combined with 2% growth and the 8.3% yield, we see a very enticing 12.3% total annual return forecast for Omega in the coming years.

## **Alpine Income Property Trust Inc. (PINE)**

**Dividend Yield: 5.3%**

**5-Year Expected Annual Total Returns: 11.6%**

### **Overview & Current Events**

Alpine Income Property Trust (PINE) is a real estate investment trust (REIT) that owns and operates a high-quality portfolio of commercial net lease properties. Its portfolio consists of 71 net leased retail and office properties located in 49 markets in 22 states. It was formed as recently as August of 2019, has no employees, and is externally managed by Alpine Income Property Manager. The manager is owned by the publicly traded trust CTO Realty Growth (CTO), which also owns 22.3% of Alpine's common stock.

In the second quarter, total revenues grew 44% over last year's quarter thanks to the trust's acquisition spree since its inception. In the first half of the year, the trust acquired 23 income properties for a combined purchase price of \$103.2 million. Thanks to economies of scale and lower total costs after its manager's fees, adjusted funds from operations (AFFO) per share grew by a massive 144%, to \$3.9 million. At the end of the quarter, the trust's Weighted-Average Remaining Lease Term was 8.0 years and was 100% occupied. For the full year, management expects AFFO/share of \$1.38 to \$1.48. We expect AFFO/share at the higher end of this range, given the trust's explosive results.

### **Safety & Dividend Risk Analysis**

Despite the pandemic, Alpine has raised its dividend 22% this year and thus it is offering a 5.3% dividend yield. Interest coverage ratio is low, at 1.7. However, given the healthy payout ratio of 68%, the reliable cash flows backed by multi-year leases and growth potential, the dividend should be considered safe in the absence of a prolonged crisis. A large portion of rental income comes from solid tenants. Wells Fargo, Hilton, and Dollar General comprise 11%, 9%, and 7% of total rental income for Alpine, respectively.

### **Growth, Value, & Expected Total Return Analysis**

As Alpine Income Property Trust was formed in 2019, it does not have a historical track record. However, its financials have been growing at a very rapid pace quarter after quarter. The trust has achieved approximately 150% accretive portfolio growth since its inception. Its current growth drivers include its acquisition spree, which takes place at extremely low-cost financing (Alpine just borrowed \$60 million with a 5-year term at just 2.16%), as well as rent escalations. About 45% of its annualized base rent is subject to rent escalations. While the trust's ongoing growth trajectory points towards high growth ahead, we have assumed 7.0% growth of AFFO per share over the next five years, just to be on the safe side, given the short history of the trust.

Based on expected 2021 FFO per share of \$1.48, the REIT trades for a price-to-FFO ratio of just over 12.6. Our fair value estimate for this trust is a price-to-FFO ratio (P/FFO) of 12.6. A contracting P/FFO multiple could reduce shareholder returns by 0.1% per year over the next five years. Moreover, we expect annual growth of FFO per share of 7.0%, while the REIT has a 5.3% dividend yield. We expect total annual returns of 11.6% per year over the next five years.

## CareTrust REIT Inc. (CTRE)

**Dividend Yield:** 4.9%

**5-Year Expected Annual Total Returns:** 9.9%

### Overview & Current Events

CareTrust REIT Inc. (CTRE) is a self-administered real estate investment trust (REIT) which acquires, develops, and leases skilled nursing, seniors housing, and other healthcare properties. The company's real estate portfolio comprises 225 skilled nursing facilities, multi-service campuses, and assisted living facilities which consist of 23,542 operational beds and units located in 28 states.

CareTrust released second-quarter results which saw net income increase 12.6% year-over-year to \$21.3 million or \$0.22 per share. Normalized funds from operations (FFO) grew 11.4% to \$35.8 million or \$0.37 per share. Normalized funds available for distribution (FAD) rose 13.5% to \$0.40 per share compared to the same prior year period. The Trust was able to collect 100% of contract rents in the first and second quarter.

Leadership increased their previous fiscal 2021 guidance and anticipate normalized FFO to come in around \$1.48 to \$1.50 and for FAD to come in at a mid-point of \$1.58. This increase would result in a 6.4% growth in FFO over 2020.

### Safety & Dividend Risk Analysis

CareTrust has raised its dividend every year since it was spun off from The Ensign Group in mid-2014, for a total of six years to date<sup>1</sup>. The payout ratio has remained healthy throughout the trust's history, with a bump in 2017 where the payout ratio reached its peak of 87%. If CTRE meets their provided guidance for FFO of \$1.49, the company will achieve a payout ratio of 71% in 2021, a fairly conservative rate in the REIT space.

The Trust's competitive strength lies in their geographically diverse property portfolio across 28 different states, and their long-term, triple-net lease structure which places many expenses on the operators rather than the trust.

### Growth, Value, & Expected Total Return Analysis

While funds from operations have been somewhat volatile, the Trust has grown FFO by 13.1% and 9.1% on average in the past 6 and 5 years, which is solid. Going forward, we conservatively estimate they can continue growing FFO by 5.5% on the back of the pandemic. The trust will continue acquiring skilled nursing and senior care retirement homes to lease and build their real estate portfolio. Currently, CTRE has an active deal pipeline in the \$125 million to \$150 million range, in-line with historical levels.

Based on estimated fiscal 2021 FFO of \$1.49, CareTrust trades for a price-to-FFO ratio (P/FFO) of ~14.6. Our fair value estimate is a P/FFO of 15. A higher P/E multiple could increase shareholder returns by approximately 0.2% per year over the next five years. In addition, when combined with the 5.5% expected growth rate and 4.9% starting dividend yield, we expect average total annual returns of 9.9% over the next five years.

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<sup>1</sup> The REIT paid a large special dividend in 2014 but has increased its normal quarterly dividend every year since 2014.

## Four Corners Property Trust Inc. (FCPT)

**Dividend Yield:** 4.7%

**5-Year Expected Annual Total Returns:** 9.8%

### Overview & Current Events

Four Corners Property Trust (FCPT) was formed after a spin-off from Darden Restaurants (DRI), in November of 2015. It is a real estate investment trust (REIT), which primarily acquires and leases restaurant properties. The trust is structured as a triple-net lease, which means property maintenance, taxes, and insurance are the tenant's responsibility. This results in strong operating margins in the 80% to 90% range, much higher than the ~65% operating margins of most shopping center REITs.

FCPT has proved markedly resilient to the pandemic, as it has posted record funds from operations (FFO) per share in each of the last two years. In the second quarter, FCPT collected 99.8% of its rental payments, thus confirming that essentially all its tenants are in healthy financial positions. Rental revenue grew 11% over last year's quarter and adjusted funds from operations per share grew 12%, from \$0.34 to \$0.38. FCPT acquired 23 properties for a combined purchase price of \$45.6 million during the quarter, with an initial weighted average cash yield of 6.9% and a weighted average remaining lease term of 6.6 years.

### Safety & Dividend Risk Analysis

The most significant competitive advantage of FCPT is its high-quality management. FCPT is offering an attractive 4.7% dividend yield. Its current payout ratio is high, at 83%, but the REIT has proved resilient to the pandemic. While many REITs have been struggling and have cut their dividends during the coronavirus crisis, FCPT grew its revenues and its FFO per share by 7% and 4%, respectively, last year. As a result, it raised its dividend by 4% in late 2020. In addition, FCPT has a healthy interest coverage ratio of 3.6 and a debt to equity ratio of 1.0. Overall, we view its 4.7% dividend as safe in the absence of a severe unexpected downturn.

### Growth, Value, & Expected Total Return Analysis

As FCPT was formed in late 2015, it has a short history. Nevertheless, the trust has managed to grow its FFO per share every single year, from \$1.22 in 2016 to an expected \$1.55 this year, for a 4.9% average annual growth rate. We expect FCPT to continue growing its FFO per share at a rate close to its historical rate thanks to ample room for the continuation of profitable acquisitions of properties. The market seems to agree on the promising growth prospects of FCPT, as it has rewarded the stock with an exceptionally high price-to-FFO ratio (P/FFO) throughout its 6-year history, close to 20.0.

Based on expected 2021 FFO per share of \$1.55, FCPT trades for a P/FFO of 17.8. Our fair value estimate for this REIT is a P/FFO of 19.0. An expanding P/FFO multiple could boost shareholder returns by 1.1% per year over the next five years. We also expect annual growth of FFO per share of 5.0%, while the REIT has a 4.7% dividend yield. We expect total annual returns of 9.8% per year over the next five years.



## **Piedmont Office Realty Trust Inc. (PDM)**

**Dividend Yield:** 4.9%

**5-Year Expected Annual Total Returns:** 8.1%

### **Overview & Current Events**

Piedmont Office Realty Trust (PDM) owns, develops, and operates high-quality office properties located primarily in sub-markets within seven major Eastern U.S. office markets. The company generates the majority of its revenues from U.S. government entities, business services companies, and financial institutions in the Sunbelt region.

Piedmont released second-quarter results and reported core funds from operations (FFO) of \$60.4 million, a slight decrease compared to the \$61.6 million generated in the year ago period. Core FFO per share of \$0.48 came in a penny short of Q2 2020's results. PDM saw a roughly 5% year-over-year increase in same store net operating income. The company leased 664,000 square feet in the quarter, including 154,000 square feet of new tenant leasing.

Leadership has upgraded their financial estimations for 2021 core funds from operations, from a prior mid-point expectation of \$1.91 to a new mid-point of \$1.93, implying a 2.1% increase from fiscal year 2020's results.

### **Safety & Dividend Risk Analysis**

Piedmont Office Realty Trust has a fair payout ratio based on its core FFO, and we believe the distribution is safe. The company has not made a habit of raising the dividend, so as core FFO grows over the long term, the payout ratio decreases. While office leases tend to be fairly stable, the pandemic and remote work could result in a permanent paradigm shift, which would result in less office space being leased or owned.

PDM has no collateralized real estate assets. Piedmont's average net debt-to-Core EBITDA was 5.7x as of the end of the quarter, and the debt-to-gross assets ratio was 34.6%. The company has \$424 million available on their \$500 million line of credit.

### **Growth, Value, & Expected Total Return Analysis**

In the last nine and five years, PDM has managed to grow core FFO by 2.1% and 2.9% annually, on average. While results have been relatively choppy, there exists a long-term track record of positive growth. Given the ongoing struggles of the office real estate space due to the COVID pandemic, we estimate PDM will grow core FFO at the bottom of this range, at roughly 2.2% annually. The Trust believes that working from home should diminish as the pandemic subsides in the U.S. and they are well-positioned to adapt to the updated workforce preferences.

Based on expected 2021 core FFO of \$1.93, Piedmont trades for a price-to-core FFO ratio (P/CFFO) of 8.9. Our fair value estimate for the company is a P/CFFO of 10.0. An expanding P/E multiple could boost shareholder returns by approximately 1.9% per year over the next five years. In addition, we expect annual earnings-per-share growth of 2.2%, while the stock has a 4.9% dividend yield. We expect total annual returns of 8.1% per year over the next five years.

## **Medical Properties Trust Inc. (MPW)**

**Dividend Yield: 5.5%**

**5-Year Expected Annual Total Returns: 8.1%**

### **Overview & Current Events**

Founded in 2003, Medical Properties Trust (MPW) is the only pure-play hospital real estate investment trust (REIT) today. It owns a well-diversified portfolio of over 400 properties which are leased to over 30 operators. The vast majority of its assets are general acute care hospitals and are well diversified geographically, with properties in 29 states to mitigate the risk of demand and supply imbalances in individual markets. On top of its U.S. portfolio, Medical Properties maintains a strategic exposure to key European markets, including Germany, the UK, Italy, and Australia.

Medical Properties has proved resilient to the pandemic, in contrast to many REITs. It posted record funds from operations (FFO) per share in 2020 and is on track for another record this year. In the second quarter, revenue grew 31% over last year's quarter and FFO per share grew 13%, from \$0.38 to \$0.43. The REIT also acquired four acute care hospitals in early July, operated by Pipeline Health System, and closed the £15.6 million acquisition of Kings Park Hospital in Stirling, Scotland.

### **Safety & Dividend Risk Analysis**

The medical industry is resilient to recessions and hence Medical Properties is a defensive stock. Unfortunately, in the Great Recession, Medical Properties incurred a 31% decrease in its FFO per share and cut its dividend. However, its business is much better diversified now and thus the REIT has proved rock-solid amid the pandemic. As the only pure-play hospital REIT with over a decade-and-a-half of experience, it enjoys specialized operating and investing knowledge within its niche.

Medical Properties is offering an attractive 5.5% dividend. Thanks to its healthy payout ratio (64%), decent interest coverage ratio of 2.8 and manageable net debt of \$7.4 billion (only 60% of market cap), the dividend is fairly safe in the absence of a severe downturn.

### **Growth, Value, & Expected Total Return Analysis**

Medical Properties has an exceptional growth record, as it has grown its FFO per share every single year over the last decade, from \$0.72 to \$1.57, for 9.0% average annual growth. The trust expects its aggressive acquisition pipeline to combine with its defensive net-leases to drive growth. While we do not expect the trust to continue its 2019 pace of acquisitions, it should continue to find attractive acquisition opportunities thanks to its extensive geographic reach into developed and aging populations.

Based on expected 2021 FFO per share of \$1.74, Medical Properties trades for a price-to-FFO ratio (P/FFO) of 11.7. Our fair value estimate for this REIT is a P/FFO of 12.5. An expanding P/FFO multiple could boost shareholder returns by 1.5% per year over the next five years. We also expect annual growth of FFO per share of 1.6%, while Medical Properties has a 5.5% dividend yield. We expect total annual returns of 8.1% per year over the next five years.

## Highwoods Properties Inc. (HIW)

**Dividend Yield:** 4.5%

**5-Year Expected Annual Total Returns:** 7.8%

### Overview & Current Events

Highwoods Properties (HIW) is a fully integrated office real estate investment trust (REIT) which owns, develops, acquires, leases, and manages properties. They operate in strong business districts such as Atlanta, Charlotte, Nashville, Orlando, Pittsburgh, and others. The company possesses 161 in-service properties making up 25.7 million square feet which are wholly owned. Additionally, Highwoods has 0.8 million rentable square feet of office properties under development and roughly 250 acres of development land.

Highwoods Properties released second-quarter results and announced funds from operations (FFO) per share of \$0.93, flat compared to the prior year. Leasing activity continues to accelerate and is even above the long-term average prior to the pandemic.

The company also announced its plan to acquire a portfolio of assets from Preferred Apartment Communities Inc. for ~\$769 million, which is scheduled to close in the third quarter of 2021. To fund this acquisition, the Trust's plan to sell \$500 to \$600 million of existing non-core assets has been accelerated, and half is expected to close by year-end.

The company has upgraded its former 2021 FFO outlook from a prior mid-point of \$3.60 to a new mid-point of \$3.68. Year-end occupancy is expected to be around 91%.

### Safety & Dividend Risk Analysis

The payout ratio on average has been range-bound in between 50% and 70% of FFO, which we deem to be in safe territory. Additionally, the dividend has grown for four consecutive years from its previous consistent dividend, so it has a healthy history.

The large global switch from working in an office space to working from home may have an impact on future results, but this is speculative. The corporation ended the first quarter at a net debt-to-Adjusted EBITDA ratio of 5.2x. Highwoods also has liquidity of \$58 million in cash, \$595 million available on their revolving credit facility and \$200 million available on an unsecured bridge facility.

### Growth, Value, & Expected Total Return Analysis

Highwoods has grown funds from operations consistently in the last 5 and 10 years, at 3.1% and 4.6%, respectively. FFO grew even during the pandemic year, and we forecast the company will be able to continue growing FFO by 2.5% from this point on to reach \$4.16 in 2026. The REIT will achieve this growth by acquiring new properties, increasing same property cash NOI, increasing occupancy, renegotiating expiring leases,

Based on the expectation of \$3.68 in fiscal 2021 funds from operations, Highwoods is presently trading at a price-to-FFO ratio of 12.1. Our fair value estimate is a price-to-FFO ratio of 13.0, implying gains of 1.5% from the valuation over the next five years. When combined with the 4.5% dividend yield and 2.5% anticipated growth rate, we are forecasting the potential for 7.8% annual returns.

# Industrial Logistics Properties Trust (ILPT)

**Dividend Yield:** 5.1%

**5-Year Expected Annual Total Returns:** 6.8%

## Overview & Current Events

Industrial Logistics Properties is a REIT that owns and leases industrial and logistics properties throughout the United States. The trust's portfolio consists of nearly 300 properties that collectively have about 35 million rentable square feet. The majority of its portfolio is in Hawaii, with about half of its total revenue coming from that state, with the other half coming from the U.S. mainland. Industrial Logistics generates about \$220 million in annual revenue, and trades with a market capitalization of \$1.7 billion.

Industrial Logistics reported second-quarter earnings on July 28<sup>th</sup>, 2021. Revenue was \$54.2 million, nearly 17% lower than the comparable year-ago period. The decline was due to the trust divesting a significant equity stake in a joint venture. Funds from operations (FFO) was \$30.6 million, flat year-over-year, at 47 cents per-share. The trust continues to see strong leasing momentum for its properties given the sustainable tailwind of ever-increasing amounts of e-commerce. Occupancy at the end of the quarter stood at 99%, and the trust's weighted average remaining lease term is in excess of nine years. Guidance wasn't provided but given that first half results for this year and last year were quite comparable, we expect \$1.89 per share in FFO for this year, which takes into account one recent property acquisition, and the divestiture of the joint venture.

## Safety & Dividend Risk Analysis

Industrial Logistics wasn't around during the last normal recession but given the factors it has in its favor – long lease terms, strong tenants, exposure to e-commerce – we see its recession resistance as quite good. We note that the trust has enormous exposure to the state of Hawaii, but its major tenants include names like Amazon and FedEx. The trust also enjoys nearly perfect occupancy.

Industrial Logistics' debt-to-equity ratio is under 90%, so it is roughly in-line with other well-funded REITs. Total interest expense is at an annual run rate of just over \$40 million today, so despite the trust's relatively small size, we see these numbers as perfectly acceptable, and don't see any financing risk as of now. The payout ratio is also strong for a REIT at just 70% of FFO, meaning that Industrial Logistics could see a downturn in FFO and still be well-positioned to pay its dividend.

## Growth, Value, & Expected Total Return Analysis

We see the trust growing at 3% annually in the coming years, given it is expanding its portfolio, but economic returns in excess of its cost of capital have been somewhat tough to come by. The trust has been able to gradually raise per-square-foot leasing rates, but overall, we see a somewhat challenging road ahead for FFO per share growth.

The stock trades today at 13.7 times FFO estimates for this year, which is slightly ahead of our estimate of fair value at 13 times FFO. That implies a small headwind to total returns, which is more than offset by 3% forecasted growth and the 5.1% current dividend yield. In total, we see 6.8% total annual returns in the coming years.

## **Realty Income Corp. (O)**

**Dividend Yield:** 4.1%

**5-Year Expected Annual Total Returns:** 6.5%

### **Overview & Current Events**

Realty Income, which refers to itself as The Monthly Dividend Company, is a REIT that is focused on dependable monthly income for shareholders. The trust has an operating history of more than half a century, and it has increased its dividend a staggering 109 times since 1994. Realty Income takes the approach of slight, incremental increases to its monthly payouts, providing shareholders with nearly constantly rising income.

Realty Income's portfolio consists of more than four thousand properties that collectively generate about \$1.8 billion in annual revenue for the trust. The stock trades with a market capitalization of \$26.6 billion, making it one of the largest REITs in the world.

Realty Income announced its second-quarter earnings on August 2<sup>nd</sup>, 2021 and results were quite strong. The trust said revenue was \$460 million, a 12% increase over the year-ago period. Realty Income said acquired properties were the source of nearly all revenue growth, implying modest same-store sales performance.

Funds from operations (FFO) were 88 cents per share in Q2, and the trust expects a record-breaking performance in 2021, of around \$3.56 in FFO per share.

Shareholders of Realty Income and its acquisition target, VREIT (VER), approved the transaction and management expects it to close some time in the fourth quarter. Realty Income believes VREIT could add as much as 10% to FFO per share immediately.

### **Safety & Dividend Risk Analysis**

Realty Income has been proven to be safe over the past 52 years, and we believe it to be safe today. The trust's immense and diverse portfolio helps it weather recessions and it has no single tenant risk given its diversification.

Debt has risen over time as the trust borrows at fairly cheap rates to acquire new properties, and today, its debt-to-equity ratio is about 80%. We see that as quite sustainable as REITs generally operate with high levels of debt given their reliable cash flows. Interest expense is in excess of \$300 million annually, however, so it is still something investors should keep an eye on going forward. The trust's ~80% payout ratio means the dividend should be quite sustainable as well.

### **Growth, Value, & Expected Total Return Analysis**

Realty Income shares trade at a small premium to our fair value estimate today, with the current price-to-FFO multiple at 19.2. This is slightly higher than our estimate of fair value at 18 times FFO, so we are forecasting a small headwind to total returns in the coming years as a result.

However, we also see 4% annual FFO per share growth, which will more than offset that headwind. When we combine these factors with the 4.1% current dividend yield, we see 6.5% total annual returns in the coming years.

## Ranking Procedure

The method we use to compute the rankings for the Top 10 REITs is as follows:

**Note:** Rankings are done using [Sure Analysis Research Database](#) data. We typically create our rankings using data from the Wednesday before the special report publishes.

1. Exclude all non-REITs.
2. Exclude all international REITs.
3. Filter for dividend yields of 4% or greater.
4. Sort by expected total returns (the higher the better).
5. Manually review each REIT for safety. The review process looks at dividend history, payout ratio, and qualitative factors.
6. No more than 3 REITs in each REIT subcategory. As an example, there can be no more than 3 mortgage REITs in any one edition of the Top 10 REITs report.

Our expected total returns are calculated in the [Sure Analysis Research Database](#). They are based on expected returns over the next five years. Our expected total returns take into account dividends, growth, and valuation returns.

We compare all the 700+ securities in Sure Analysis – including more than 100 REITs – to one another using the same expected total return framework. This means we can compare the REITs in our database to one another on an ‘apples-to-apples’ basis. This is necessary to create the rankings in the Top 10 REITs service.

Note that our expected total returns are based on the idea that the economy will continue forward ‘as is’ for the foreseeable future, and not encounter a recession.

Recessions happen, of course, and we seek to recommend securities likely to pay steady or rising dividends during recessions.

COVID-19 was especially hard on REITs in general. As a result, 2020 and 2021 represent excellent ‘test years’ to show the dividend safety of REITs even in an extremely difficult operating environment. Avoiding REITs that reduced their dividends in 2020 or 2021 serves as a helpful screen in identifying REITs likely to pay steady or rising dividends into the future.

The goal of our Top 10 REITs service is to find REITs that have solid dividend yields of 4% or greater, provide reasonable safety and the likelihood of steady or rising dividends in the future, and that offer solid expected total returns ahead. We believe the ranking procedure outlined above combined with our extensive research done in the [Sure Analysis Research Database](#) identifies securities very likely to match these characteristics going forward.

## REIT Tax Guide

The organizational form of a company is important for tax purposes because it determines how efficiently a company can return money to investors. An example is below.

**Example:** Imagine a company makes \$10, pre-tax, and distributes 100% to investors. The image below shows how much of the \$10 would go to investors using standard assumptions for the three investment vehicles:

*Notes: The image below takes into account the [pass-through entity tax breaks](#) from Trump's Tax Act, which will expire in 2025. The table below assumes that 70% of REIT payments are ordinary income; and capital gains and return of capital each make up 15% of REIT payments.*

Corporation		REIT	
Pre-Tax Income	\$10.00	Distributable Cash	\$10.00
Corporate Income Tax	(\$2.10)	<b>After Tax Funds From Operations</b>	<b>\$10.00</b>
<b>After-Tax Income</b>	<b>\$7.90</b>	Ordinary Income Tax @37%	(\$2.07)
Qualified Dividend Tax	(\$1.58)	Capital Gains Tax @20%	(\$0.24)
<b>Dividend After Tax</b>	<b>\$6.32</b>	Return of Capital Tax @20%	(\$0.24)
		<b>Distribution After Taxes</b>	<b>\$7.45</b>

Note that REITs avoid double taxation because they *are not taxed at the organization level*. REITs are in between MLPs and Corporations in terms of both complexity and tax-advantages. REITs are required to pay out 90%+ of their income.

REITs are organized as trusts. As a result, 'shareholders' are actually unit holders.

REITs issue 1099 forms (just like corporations) instead of K-1 forms (like MLPs do). Unit holders technically receive distributions, not dividends (just like MLPs). REIT distributions fall into three categories: ordinary income, return of capital, and capital gains.

Ordinary income is taxed at your ordinary income tax rate; up to 37%. Return of capital reduces your *cost basis* (your purchase price for the security, which increases capital gains tax when you sell). Capital gains are taxed at either short-term or long-term capital gains rates.

The percentage of distributions from these three sources varies by REIT. In general, ordinary income tends to be the majority of the distribution. Expect around 70% of distributions as ordinary income, 15% as a return of capital, and 15% as capital gains.

REITs are best suited for retirement accounts because the majority of their payments are taxed as ordinary income. Retirement accounts remove this negative and make REITs very tax advantageous. This doesn't mean you should never own a REIT in a taxable account. A good investment is a good investment, regardless of tax issues. But if you have the choice, REITs should be placed in a retirement account such as an IRA or 401k.

## List Of REITs By Expected Total Returns

Each of the REITs in the *Sure Analysis Research Database* are sorted below (from highest to lowest) by expected 5-year total returns using data from the [Sure Analysis Research Database](#). Dividend yield is included next to each REIT's ticker symbol.

1. Innovative Industrial Properties (IIPR): 2.5%
2. Clipper Realty Inc (CLPR): 4.6%
3. SL Green Realty Corp. (SLG): 5.3%
4. Uniti Group Inc (UNIT): 4.6%
5. Americold Realty Trust (COLD): 2.5%
6. Omega Healthcare Investors, Inc. (OHI): 8.3%
7. Alpine Income Property Trust (PINE): 5.4%
8. LTC Properties, Inc. (LTC): 6.9%
9. Office Properties Income Trust (OPI): 8.7%
10. CTO Realty Growth Inc (CTO): 7.3%
11. VICI Properties Inc (VICI): 4.6%
12. Watsco Inc. (WSO): 2.8%
13. Paramount Group Inc (PGRE): 3.2%
14. Simon Property Group, Inc. (SPG): 4.6%
15. Geo Group, Inc. (GEO): 0%
16. CareTrust REIT Inc (CTRE): 4.9%
17. Four Corners Property Trust (FCPT): 4.7%
18. Sachem Capital Corp (SACH): 9.5%
19. MGM Growth Properties LLC (MGP): 5.1%
20. National Health Investors, Inc. (NHI): 6.3%
21. Two Harbors Investment Corp (TWO): 10.5%
22. Healthcare Realty Trust, Inc. (HR): 3.9%
23. New Residential Investment (NRZ): 7.3%
24. American Fin Tr Inc (AFIN): 9.8%
25. Sabra Healthcare REIT Inc (SBRA): 7.7%
26. Orchid Island Capital Inc (ORC): 15.5%
27. Hannon Armstrong Sustaina. (HASI): 2.5%
28. EPR Properties (EPR): 6.1%
29. Medical Properties Trust Inc (MPW): 5.5%
30. UMH Properties Inc. (UMH): 3.1%
31. Piedmont Office Realty Trust (PDM): 4.9%
32. KKR Real Estate Finance (KREF): 8.1%
33. Preferred Apartment Commun. (APTS): 6.1%
34. Safehold Inc (SAFE): 0.8%
35. City Office REIT Inc (CIO): 3.6%
36. Spirit Realty Capital Inc (SRC): 5%
37. Service Properties Trust (SVC): 0.4%
38. Highwoods Properties, Inc. (HIW): 4.5%
39. Global Medical REIT Inc (GMRE): 5.3%
40. Annaly Capital Management (NLY): 10.2%
41. New York Mortgage Trust (NYMT): 9.2%
42. Community Healthcare Trust (CHCT): 3.6%
43. Universal Health Realty Income (UHT): 4.9%
44. Broadmark Realty Capital Inc (BRMK): 8.2%
45. Global Net Lease Inc (GNL): 9.6%
46. Independence Realty Trust Inc (IRT): 2.4%
47. CyrusOne Inc (CONE): 2.7%
48. Invitation Homes Inc (INVH): 1.7%
49. Healthcare Trust of America Inc (HTA): 4.2%
50. Starwood Property Trust Inc (STWD): 7.7%
51. Ares Commercial Real Estate (ACRE): 8.5%
52. Whitestone REIT (WSR): 4.4%
53. Industrial Logistics Properties (ILPT): 5.1%
54. Crown Castle International Corp (CCI): 2.8%
55. Easterly Government Properties (DEA): 5%
56. Extra Space Storage Inc. (EXR): 2.7%
57. Realty Income Corp. (O): 4.1%
58. National Storage Affiliates Trust (NSA): 2.8%
59. Weyerhaeuser Co. (WY): 1.9%
60. Landmark Infrastructure (LMRK): 4.8%
61. NETSTREIT Corp (NTST): 3.2%
62. AGNC Investment Corp (AGNC): 9%
63. Regency Centers Corporation (REG): 3.5%
64. Boston Properties, Inc. (BXP): 3.5%
65. Agree Realty Corp. (ADC): 3.5%
66. Urban Edge Properties (UE): 3.3%
67. Equinix Inc (EQIX): 1.4%
68. Chatham Lodging Trust (CLDT): 0%
69. ARMOUR Residential REIT (ARR): 11.2%
70. PS Business Parks, Inc. (PSB): 2.7%



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| 71. Gaming and Leisure Properties (GLPI): 5.6%   | 111. Federal Realty Investment (FRT): 3.6%     |
| 72. Essential Properties Realty (EPRT): 3.3%     | 112. AvalonBay Communities Inc. (AVB): 2.8%    |
| 73. Gladstone Commercial Corp (GOOD): 6.8%       | 113. Essex Property Trust, Inc. (ESS): 2.6%    |
| 74. EastGroup Properties, Inc. (EGP): 2.1%       | 114. Gladstone Land Corp (LAND): 2.4%          |
| 75. CorEnergy Infrastructure (CORR): 4.3%        | 115. Apollo Commercial Real Estate (ARI): 9.2% |
| 76. Store Capital Corp (STOR): 4.4%              | 116. Welltower Inc (WELL): 2.8%                |
| 77. W. P. Carey Inc (WPC): 5.5%                  | 117. Camden Property Trust (CPT): 2.2%         |
| 78. Chimera Investment Corp (CIM): 8.5%          | 118. Kimco Realty Corp. (KIM): 3.1%            |
| 79. Empire State Realty Trust Inc (ESRT): 1.4%   | 119. Mid-America Apartment: (MAA): 2.1%        |
| 80. VEREIT Inc (VER): 3.9%                       | 120. Lamar Advertising Co (LAMR): 2.7%         |
| 81. Prologis Inc (PLD): 1.9%                     | 121. Diversified Healthcare Trust (DHC): 1.2%  |
| 82. Ventas Inc (VTR): 3.2%                       |  |
| 83. Plymouth Industrial REIT Inc. (PLYM): 3.6%   |  |
| 84. CubeSmart (CUBE): 2.6%                       |  |
| 85. American Campus Commun. (ACC): 3.8%          |  |
| 86. Kite Realty Group Trust (KRG): 3.5%          |  |
| 87. Ladder Capital Corp (LADR): 7.2%             |  |
| 88. One Liberty Properties, Inc. (OLP): 5.9%     |  |
| 89. Physicians Realty Trust (DOC): 5%            |  |
| 90. Park Hotels & Resorts Inc (PK): 0%           |  |
| 91. Macerich Co. (MAC): 3.4%                     |  |
| 92. Blackstone Mortgage Trust (BXMT): 7.9%       |  |
| 93. Iron Mountain Inc. (IRM): 5.5%               |  |
| 94. National Retail Properties Inc (NNN): 4.7%   |  |
| 95. Equity Residential Properties (EQR): 3%      |  |
| 96. Tanger Factory Outlet Centers (SKT): 4.1%    |  |
| 97. Apple Hospitality REIT Inc (APLE): 0.3%      |  |
| 98. UDR Inc (UDR): 2.7%                          |  |
| 99. STAG Industrial Inc (STAG): 3.5%             |  |
| 100. Monmouth Real Estate Inve. (MNR): 3.8%      |  |
| 101. Brixmor Property Group Inc (BRX): 3.7%      |  |
| 102. Alexandria Real Estate (ARE): 2.3%          |  |
| 103. Digital Realty Trust Inc (DLR): 3%          |  |
| 104. CoreSite Realty Corporation (COR): 3.4%     |  |
| 105. Public Storage (PSA): 2.5%                  |  |
| 106. Urstadt Biddle Properties, Inc. (UBA): 4.8% |  |
| 107. Healthpeak Properties Inc (PEAK): 3.4%      |  |
| 108. Lexington Realty Trust (LXP): 3.2%          |  |
| 109. Arbor Realty Trust Inc. (ABR): 7.7%         |  |
| 110. American Tower Corp. (AMT): 1.7%            |  |

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### Disclaimer

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