Top 10 REITs
January 2024 Edition

A monthly special report service from Sure Dividend

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Top 10 REITs – January 2024

Name & Ticker	Price	Fair Value	Payout Ratio	Div. Risk Score	Div. Yield	Exp. Growth Return	Exp. Value Return	Exp. Total Return
Universal Health (UHT)	$42	$44	79%	B	6.9%	2.5%	1.0%	9.1%
SBA Comm. (SBAC)	$239	$221	26%	B	1.4%	9.0%	-1.6%	9.0%
Equinix (EQIX)	$801	$705	53%	B	2.1%	8.0%	-2.5%	7.4%
Essex Property (ESS)	$248	$240	62%	B	3.7%	4.4%	-0.7%	7.1%
NNN REIT (NNN)	$43	$39	70%	B	5.2%	4.5%	-2.3%	7.1%
Public Storage (PSA)	$290	$335	72%	C	4.1%	4.0%	2.9%	10.4%
American Tower (AMT)	$208	$216	69%	C	3.3%	6.0%	0.8%	9.6%
Digital Realty (DLR)	$134	$109	74%	C	3.6%	9.0%	-4.0%	8.0%
Realty Income (O)	$59	$56	77%	C	5.2%	4.1%	-1.1%	7.6%
CubeSmart (CUBE)	$45	$37	77%	C	4.6%	6.0%	-3.6%	6.8%

Notes: *Data for the table above is from the 1/12/24 Sure Analysis Research Database spreadsheet. "Div." stands for Dividend. "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: *None.*

Hannon Armstrong Sustainable Infrastructure Capital (HASI) was replaced from last month's Top 10 by SBA Communications (SBAC).

The Top 10 has the following average characteristics:

	Top 10 REITs	S&P 500
Dividend Yield:	4.0%	1.5%
Growth Rate:	5.8%	5.5%
Valuation Return:	-1.1%	-1.8%
Expected Annual Total Returns:	8.2%	5.0%

Notes: The S&P 500 expected annual total return calculation uses the average P/E ratio of the last 10 years for a fair value estimate. REITs have different tax consequences than stocks that trade as corporations. Please see our REIT Tax Guide for more information. Data for this edition is from 1/9/24 through 1/12/24.

Universal Health Realty Income Trust (UHT)

Dividend Yield: 7.0%
5-Year Expected Annual Total Returns: 9.2%

Overview & Current Events

Universal Health Realty Income Trust is a REIT that specializes in the healthcare industry. The trust owns healthcare and human service-related facilities. Its property portfolio includes acute care hospitals, medical office buildings, rehabilitation hospitals, behavioral healthcare facilities, sub-acute care facilities and childcare centers. The trust was founded in 1986 and has a market capitalization of $575 million. Universal Health's portfolio includes 69 properties spread across 20 states.

On October 25th, 2023, UHT released Q3 2023 earnings. m operations (FFO) equaled $11.2 million, a slight decrease from $11.8 million in the same quarter the previous year. A notable event was the acquisition of McAllen Doctor's Center in Texas for ~$7.5 million. The report also highlighted a dividend of $0.72 per share totaling $9.9 million, paid on September 29th, 2023. UHT's outstanding borrowings stood at $321.5 million with an available borrowing capacity of $50.4 million as of September 30th, 2023.

On December 7th, 2023, UHT increased its dividend by $0.005, from $0.720 to $0.725. This is the 2nd $0.005 increase in 2023 for UHT. The dividend is up 1.4% year-over-year. The REIT has increased its dividend for 39 consecutive years.

Safety & Dividend Risk Analysis

Universal Health does not appear to have any significant competitive advantages, in our view. Universal Health is a small-cap trust, much smaller than other healthcare REITs.

While Universal Health can be expected to perform relatively well during economic downturns, it is not immune from recessions. The trust remained profitable during the Great Recession. COVID-19 did not significantly impact FFO, with FFO/unit of $3.35, $3.29, and $3.61 in 2019, 2020, and 2021, respectively.

Universal Health is currently offering a 7.0% dividend yield and a secure payout ratio for a REIT of 79% of expected 2023 FFO.

Growth, Value & Expected Total Return Analysis

With more than 70 million Baby Boomers, the U.S. is a mature society. Demand for healthcare facilities is expected to rise as the large Baby Boomer group progresses through life. REITs that own healthcare buildings, like Universal Health, are well positioned to benefit from this demographic trend. Overall, we expect 2.5% annualized growth over the intermediate term, consistent with the trust's track record.

The REIT is trading at a price-to-FFO ratio (P/FFO) of 11.3, which is well below its average P/FFO of 19.5 over the previous 10 years. Our fair value P/FFO ratio is 12.0. A rising P/FFO could boost shareholder returns by 1.1% per year. When combined with the 7.0% dividend yield, and 2.5% annual FFO per share growth, we expect total returns of 9.2% per year over the next five years.

SBA Communications Corp. (SBAC)

Dividend Yield: 1.4%
5-Year Expected Annual Total Returns: 8.7%

Overview & Current Events

SBA Communications a leading owner and operator of wireless communications infrastructure, primarily tower structures that support antennas used for wireless communications. The company owns nearly 40,000 tower sites which it leases to multiple wireless telecom providers. SBA also owns a site development business, through which it assists telecom providers in developing and maintaining their own wireless service networks. The REIT has a $26 billion market cap.

On November 2nd, 2023, SBA reported Q3 results for the period ending September 30th, 2023. The company posted revenues of $682.5 million, 1.0% higher year-over-year, driven by 7% higher leasing revenues due to a larger portfolio of towers and higher leasing activity, offset by 39% lower site development revenue. During the quarter, SBA acquired 45 communication sites for a total cash consideration of $40.8 million and also constructed 86 towers on its own. On a per share basis, adjusted funds from operations (AFFO) grew by 6.7%, boosted further by share buybacks. Subsequent to the quarter's end, SBAC purchased or is under contract to purchase 215 communication sites for an aggregate consideration of approximately $74.0 million, suggesting its growth pipeline is being well sustained.

Management boosted its FY2023 outlook. They are now expecting site leasing revenues between $2.510 and $2.520 billion (up from $2.502 to $2.522 billion) and AFFO/share between $12.91 and $13.13 (up from $12.80 to $13.16). We have applied the midpoint of $13.02 in our estimates for fiscal 2023.

Safety & Dividend Risk Analysis

We consider SBA's dividend extremely safe based on its payout ratio of just 26% of expected fiscal 2023 AFFO. The company enjoys a distinct competitive advantage along with the handful of other tower REITs which have formed an oligopoly.

Unlike traditional real estate properties, whose tenants may struggle to pay rent during a potential recession, telecom companies have resilient revenues, while the essential and mission-critical nature of telecommunication ensures no adverse impact on SBA's performance. This was proven both during the Great Financial Crisis and the COVID-19 pandemic when revenues continued to grow during both periods.

Growth, Value & Expected Total Return Analysis

SBA has favorable qualities, including a highly scalable business model, a credit-worthy tenant base of telecom majors, contractually secured and predictable revenues. We expect 9.0% annualized growth ahead.

SBA is currently trading for a price-to-FFO ratio of 18.7. This is ahead of our fair value estimate of 17.0. Valuation multiple contraction could reduce returns by 1.9% annually over the next 5 years. The valuation headwind, combined with 9.0% expected growth and the modest 1.4% dividend yield combine for expected annual total returns of 8.7%.

Equinix Inc. (EQIX)

Dividend Yield: 2.1%
5-Year Expected Annual Total Returns: 7.3%

Overview & Current Events

Equinix is a REIT which specializes in data centers. The trust has 251 data centers in 32 countries on 6 continents serving over 10,000 customers. Slightly less than half of the data centers are owned outright by Equinix, and these generate 64% of recurring revenues. Customers of EQIX are telecommunications carriers, mobile and network service providers, cloud and IT service providers, digital media and content providers, and financial services companies. Equinix was incorporated on June 22nd, 1998 and made the conversion to a REIT in 2015. The REIT has a $75 billion market cap.

Equinix reported third-quarter 2023 results on October 25th, 2023. For the quarter, the company announced a 12% increase in revenue compared to Q3 2022, to $2.06 billion. The company has now achieved 83 consecutive quarters of revenue growth. Adjusted funds from operations (AFFO) for the quarter was $772 million. AFFO per share increased 6% to $8.19 compared to the previous year's quarter.

Management provided 2023 annual guidance and expects a roughly 12.5% increase in revenues to $8.19 billion. Guidance also calls for AFFO of roughly $3.01 billion, an 11% increase over 2022. It also estimates AFFO per share to increase by 8.5% to $32.03.

Equinix also announced a major 25% increase to its quarterly dividend on October 25th, 2023. This boosts the REIT's quarterly dividend from $3.41 to $4.26.

Safety & Dividend Risk Analysis

This year's forecasted payout ratio of 53% is well covered, and leaves plenty of room for future dividend growth. The trust's competitive advantage among data center REITs is its global platform spanning 32 countries which contains the industry's largest and most active ecosystem of partners in their centers, creating a network effect that improves performance and lowers costs for customers.

During the Great Recession, Equinix saw its net income cut by nearly half. It took until 2012 to surpass net income levels seen in 2008. The COVID-19 pandemic had the opposite effect of the Great Financial Crisis on Equinix as technology and data use increased significantly with stay-at-home orders, and remote work and school.

Growth, Value & Expected Total Return Analysis

For the past nine and five years, Equinix has been able to grow its AFFO at an average annual rate of 10%. Equinix can continue to grow through its global platform and continues adding new data centers to its portfolio, as well as increasing interconnections and other data services. We project 8% growth ahead.

Based on expected 2023 AFFO per share of $32.03, the REIT trades for a price-to-FFO ratio (P/FFO) of 25.1, above our fair value mark of 22.0. Valuation multiple contraction could reduce annual total returns by 2.6% over the next five years. This, combined with the 2.1% dividend yield and 8% growth, gives us our expected total return estimate of 7.3% per year over the next five years.

Essex Property Trust Inc. (ESS)

Dividend Yield: 3.7%
5-Year Expected Annual Total Returns: 7.1%

Overview & Current Events

Essex Property Trust Inc. (ESS) was founded in 1971 and became a publicly traded REIT in 1994. The trust invests in west coast multifamily residential proprieties where it engages in development, redevelopment, management, and acquisition of apartment communities and a few other select properties. Essex has ownership interests in several hundred apartment communities consisting of over 60,000 apartment homes. The trust has a $16 billion market cap.

Essex reported its earnings results for the third quarter of 2023 on October 26th, 2023. For Q3 2023, the company reported core funds from operations (FFO) per diluted share of $3.78, marking a 2.4% increase compared to Q3 2022. Same-property revenue for Q3 2023 increased 3.2% year-over-year. Essex narrowed its 2023 Core FFO per share guidance range to $14.94 - $15.06.

The REIT did not make any share repurchases in its most recent quarter but has repurchased $96 million worth of stock this year (0.6% of the current market cap) and has $303 million remaining under its repurchase plan.

Safety & Dividend Risk Analysis

Essex Property Trust is a high-quality apartment REIT that has raised its dividend for 29 consecutive years. Real estate has a natural moat and Essex's exposure to leading cities with strong technology cultures further widens that moat.

However, apartments generally have a more elastic supply than single family homes, which offsets some of that protection. This was evident during the Great Recession when the trust's FFO fell slightly. Nevertheless, Essex Property Trust continued raising its dividend throughout that crisis.

During the 2019 through 2022 period, Essex generated FFO per unit of $13.38 (an all-time high then), $12.49, $12.51, and $14.51 (all-time high). The REIT saw a modest dip in FFO, but quickly rebounded, while the dividend continued to grow.

Growth, Value & Expected Total Return Analysis

Essex Property Trust has an impressive growth record, growing its FFO per share every single year between 2012 and 2019. FFO per share fell by just 6.7% from 2019 through 2021 due to COIVD-19, before growing to reach record FFO per share in 2022. Another record FFO per share year is expected in 2023. Essex Property Trust has grown its FFO per share at a 7.5% CAGR over the past 10 years, on top of its attractive and growing dividend payout. We forecast 4.4% annual growth.

Based on expected 2023 FFO per share of $15.02, this REIT trades at a price-to-FFO ratio of 16.5. Our fair value estimate is 16.0. A contracting P/FFO multiple could decrease total returns by 0.6% per year. When combined with the 3.7% dividend yield and 4.4% growth rate we expect 7.1% annual returns.

NNN REIT Inc. (NNN)

Dividend Yield: 5.3%
5-Year Expected Annual Total Returns: 7.2%

Overview & Current Events

NNN REIT owns over 3,400 properties in 49 states with a gross leasable area of approximately 35.5 million square feet. It is focused on retail customers because they are much more likely to accept rent hikes in order to avoid switching locations and losing their customer base. Thanks to this strategy, NNN REIT has offered consistent growth. It is also characterized by very high occupancy rates; its 15-year low occupancy rate is 96% and it typically ranges between 98% - 99%.

On November 1st, 2023, NNN REIT reported its financial results for the third quarter and nine-month period ending September 30th, 2023. The quarter witnessed a significant uptick in revenues, reaching $205.1 million compared to $193.5 million in the same quarter of the previous year. Funds from operations (FFO) also showed positive growth, with $147.2 million for the quarter and $437.4 million over nine months, an increase from the previous year's $139.8 million and $406.7 million.

FFO per share stood at $0.81 for the quarter and $2.41 for nine months, up from $0.79 and $2.31 year-over-year. Core FFO available to common stockholders was $147.4 million for the quarter and $438.2 million over nine months, compared to $140.3 million and $413.5 million in 2022. Core FFO increased to $0.81 for the quarter and $2.42 for nine months, from $0.79 and $2.35. We are forecasting $3.21 in FFO this year.

Safety & Dividend Risk Analysis

NNN REIT's payout ratio is being maintained near three-quarters of FFO, and we believe it will stay there for the foreseeable future. Given this, the dividend is fairly safe at this point with the trust's rising earnings.

On the other hand, NNN REIT is impacted by recessions. In the Great Recession, its FFO per share fell 34%, from $1.99 in 2008 to $1.31 in 2010. NNN has increased its dividend for 34 consecutive years, including through the Great Recession and COVID. During the 2019 through 2021 period, the REIT performed well and posted FFO per unit of $2.76 (all-time high then), $2.59, and $2.86 (all-time high then).

Growth, Value & Expected Total Return Analysis

NNN REIT has more than doubled its FFO since 2011, but it has also significantly increased its share count to fund its acquisitions. As a result, the REIT has grown its FFO per unit at a mid-single-digit rate per year on average since 2011. The trust's high level of occupancy should afford it low single-digit levels of revenue growth, while slightly increasing margins should help as well. We forecast 4.5% annual growth.

The security is trading at 13.4 times our estimate of 2023 FFO. Our fair value multiple is 12.0 times FFO, indicating the potential for a 2.1% annual headwind from valuation. When combined with the 5.3% yield and 4.5% growth, potential total returns could be 7.2% per year over the next five years.

Public Storage (PSA)

Dividend Yield: 4.1%
5-Year Expected Annual Total Returns: 10.0%

Overview & Current Events

Formed in 1980, Public Storage owns an interest in approximately 2,400 properties that lease storage space, making Public Storage the largest such entity in the U.S. Typically, storage spaces are rented on a month-to-month basis. The trust produces has a $51 billion market cap.

On February 5th, 2023, Public Storage increased its quarterly dividend by 50% to $3.00. This boosted the company's expected payout ratio for 2023 to 72%, so investors should not expect such large increases going forward.

On October 30th, 2023, Public Storage announced third-quarter results for the period ending September 30th, 2023. For the quarter, funds from operations (FFO) per share of $4.33 compared favorably to $4.13 per share in the prior year and topped estimates by $0.14.

For the period, the trust acquired 10 self-storage facilities with 0.7 million net rentable square feet for $110.5 million. This is in addition to the 127 self-storage facilities with 9.4 million net rentable square feet from the Simply Self Storage acquisition. After the end of the quarter, Public Storage acquired or was under contract to acquire eleven additional self-storage facilities with 0.8 million net rentable square feet for $170.3 million.

The trust provided update guidance for the year, with management now expecting FFO in a range of $16.60 to $16.85 for 2023, compared to a prior forecast of $16.40 to $16.80.

Safety & Dividend Risk Analysis

Public Storage has proven resilient over the years as the self-storage business is reasonably defensive. FFO fell just 1.3% during the worst of the COVID-19 pandemic in 2020. Public Storage also enjoys a size and scale that its peers do not, giving the trust access to nearly every market in the U.S.

Public Storage held its annualized dividend constant from 2017 through 2022, before providing a massive increase earlier this year. With the new dividend, the projected payout ratio for 2023 is 72%. This is within the vicinity of many in the REIT sector, making it likely that the trust's dividend is safe moving forward.

Growth, Value & Expected Total Return Analysis

Public Storage has FFO growth of 8.7% over the last decade. This growth rate accelerates to 9.5% when looking at just the last five years. However, we forecast growth of 4.0% annually through 2028 to account for growth likely decelerating as it comes off the high base of FFO expected for 2023. Shares of Public Storage are trading at a price-to-FFO of 17.6. Our fair value target is 20 times FFO, implying an annual contribution of 2.6% from multiple expansion.

We forecast that Public Storage could provide annual returns of 10.0% through 2028, stemming from 4.0% FFO growth, the 4.1% starting yield, and the aforementioned contribution from multiple expansion.

American Tower Corp. (AMT)

Dividend Yield: 3.3%
5-Year Expected Annual Total Returns: 9.5%

Overview & Current Events

American Tower was founded in 1995 and is one of the world's largest global REITs. The company specializes in owning, operating, and developing multi-tenant communications real estate, with a portfolio of nearly 225,000 communications sites in the U.S. and international markets. The REIT currently has a $97 billion market cap.

On October 26th, 2023, American Tower reported financial results for the third quarter of fiscal 2023. Revenue grew 5.5% over last year's quarter, as the REIT's customers keep investing in their 5G networks and data consumption keeps growing. Consolidated adjusted funds from operations (AFFO) per share declined 5%, from $3.46 to $3.29, mostly due to higher interest expense, but exceeded the analysts' consensus by $0.78. American Tower slightly improved its guidance for 2023. It expects 4.5% growth of property revenue (vs. 3.9% growth in previous guidance) and raised guidance for AFFO per share from $9.61-$9.79 to $9.72-$9.85, implying 0.3% growth at the midpoint.

On December 14th, 2023, American Tower boosted its quarterly dividend from $1.62 to $1.70. The REIT often increases its dividend more than once a year. The dividend is now up 9.0% year-over-year.

On January 4th, 2024, American Tower announced it will sell its India operations to Brookfield Asset Management (BAM) for ~$2.5 billion. The transaction is expected to close in the second half of 2024.

Safety & Dividend Risk Analysis

American Tower enjoys a competitive advantage in its leadership in the U.S. market. Not only is the company entrenched in the space but switching costs for customers are quite high. Meanwhile, American Tower enjoys economies of scale as it grows larger, with the cost to add additional tenants to a tower being negligible.

The REIT initiated its dividend in 2012, and has increased its dividend every year since. American Tower is currently offering a 3.3% dividend yield. Thanks to the healthy payout ratio of 69% of this year's expected AFFO, its dividend is safe for the foreseeable future. We do not expect recessions to jeopardize the dividend, given the REITs stellar track record over the last decade.

Growth, Value & Expected Total Return Analysis

American Tower has an exceptional growth record. It has grown its AFFO per share in 8 of the last 9 years, at a 12.3% average annual rate. The trust is well entrenched as a leader in the U.S. market and has also been significantly expanding abroad. We expect the REIT to grow its AFFO per share by 6.0% per year on average until 2028.

The stock is trading at 21.3 times our estimate of 2023 AFFO. Our fair value multiple is 22.0 times AFFO, indicating the potential for a 0.7% annual tailwind from valuation. When combined with the 3.3% yield and 6.0% growth, potential total returns could be 9.5% per year over the next five years.

Digital Realty Trust Inc. (DLR)

Dividend Yield: 3.6%
5-Year Expected Annual Total Returns: 7.6%

Overview & Current Events

Digital Realty Trust is a REIT that is a leader in buying and developing properties for technological uses. The company operates more than 300 facilities in over 25 countries on six continents.

On October 26th, 2023, Digital Realty reported third-quarter 2023 results for the period ending September 30th, 2023. Digital Realty generated $1.62 in core funds from operations (FFO) per share in the quarter compared to $1.67 per share in the same quarter a year ago. Digital Realty also updated its 2023 guidance, and now anticipates $6.58 to $6.62 (narrowed from $6.55 to $6.65) in Core FFO.

During the third quarter, Digital Realty sold 65% interest in two data center buildings to GI Partners for $743 million, while retaining 35%. Additionally, the REIT sold 80% ownership in three data centers to TPG Real Estate for $1.3 billion, while retaining 20% ownership.

On November 1st, Digital Realty announced it reached an agreement with Brookfield Infrastructure Partners (BIP), which is acquiring Cyxtera out of bankruptcy, regarding Digital Realty's ownership in Cyxtera data centers. The net results are $220 million in proceeds to Digital Realty, coupled with a purchase option for a data center outside of London. The deal is expected to reduce core FFO by $0.02 on the year. We continue to hold our $6.60 FFO estimate for fiscal 2023.

Safety & Dividend Risk Analysis

The fact that Digital Realty is one of the largest technology REITs in the world is its main competitive advantage. This gives the REIT a size and scale advantage that competitors have difficulty matching. Additionally, the business has demonstrated its ability to utilize its balance sheet to finance acquisitions that will increase FFO and sales.

The REIT currently has a reasonable (for a REIT) payout ratio of 74% of expected fiscal 2023 FFO. Digital Realty has a 17-year streak of consecutive dividend increases, but the company has paid the same dividend for 8 straight quarters.

Growth, Value & Expected Total Return Analysis

Digital Realty's strategic focus on acquisitions and its ability to increase rental rates mean the REIT should be able to continue to perform well in the coming years. We are forecasting 9% annual FFO per share growth over the intermediate term into 2028.

Based on expected 2023 FFO per share of $6.60, the stock trades for a price-to-FFO ratio (P/FFO) of 20.7, above of our fair P/FFO estimate of 16.5. A contracting P/FFO multiple could reduce shareholder returns by 4.4% per year. When combined with the 3.6% dividend yield, and 9% annual FFO per share growth, we expect total returns of 7.6% per year over the next five years.

Realty Income Corp. (O)

Dividend Yield: 5.2%
5-Year Expected Annual Total Returns: 7.6%

Overview & Current Events

Realty Income is a retail real estate focused REIT that has become famous for its successful dividend growth history and monthly dividend payments. Today, the trust owns thousands of properties. Realty Income owns retail properties that are not part of a wider retail development, such as a mall, but instead are standalone properties. This means that the properties are viable for many different types of tenants, including government services, health services, and entertainment. The trust was founded in 1969 and is headquartered in San Diego, CA.

On November 6th, 2023, Realty Income reported Q3 2023 financial results. The company's total revenue reached $1.03 billion, a significant increase from $837.3 million in the same period in 2022. Net income available to common stockholders was reported at $233.5 million or $0.33 per share, compared to $219.6 million or $0.36 per share in Q3 2022. Funds from operations (FFO) available to common stockholders stood at $736.1 million, or $1.04 per share, up from $597.2 million, or $0.97 per share previously. As of September 30th, 2023, the company had a high portfolio occupancy rate of 98.8%.

On December 12th, 2023, Realty Income announced a monthly dividend payment increase to $0.2565, from $0.2560. The company typically increases its dividend more than once a year. The monthly dividend is 3.2% higher than a year ago.

Safety & Dividend Risk Analysis

Realty Income's key competitive advantage is its management team, which has successfully guided the trust in the past. The trust has been highly successful at finding attractive investment opportunities while also growing rents from existing properties. The company focuses on standalone properties that can be used in a variety of ways to appeal to many different types of tenants. Realty Income has also worked to strengthen its core business in recent years. The trust spun off the vast majority of its office properties, which were among the weakest during the worst of the COVID-19 pandemic, in November of 2021. That same month, Realty Income completed its merger with VEREIT which increased the size of the portfolio to more than 10,000 single-tenant properties while also giving the trust a foothold in Europe.

Shares of Realty Income yield 5.2%. The payout ratio is 77%, which is reasonable for a REIT. The trust has raised its dividend for 26 consecutive years, qualifying it as a Dividend Aristocrat.

Growth, Value & Expected Total Return Analysis

Realty Income's AFFO growth rate is 5.4% over the last decade. We believe a growth rate of 4.1% is achievable given the strength of the business. Shares are trading with a price-to-AFFO ratio of 14.8, versus our fair value estimate of 14.0. Valuation multiple compression could result in a 1.1% drag on annual returns over the next 5 years.

Altogether, shares could provide annual returns of 7.6% per year, stemming from 4.1% AFFO growth, the 5.2% yield, and a small headwind from valuation.

CubeSmart (CUBE)

Dividend Yield: 4.5%
5-Year Expected Annual Total Returns: 6.3%

Overview & Current Events

CubeSmart is a self-managed REIT focused primarily on the ownership, operation, management, acquisition, and development of self-storage properties in the U.S. The company owns 611 self-storage properties, totaling 44.1 million rentable square feet in the District of Columbia and 24 states. The company also manages 763 stores for third parties, which brings the total number of stores that it owns and/or manages to 1,374. CubeSmart has more than 340,000 customers, and has a $10 billion market cap.

On November 2nd, 2023, CubeSmart reported its Q3 results for the period ending September 30th, 2023. Funds from operations (FFO) grew by 3.8 % to $154.0 million. On a per-share basis, FFO came in at $0.68 compared to $0.65 last year. It's worth mentioning that same-store occupancy at the end of Q2 was 91.4%, modestly lower from last year's 93.1%. Management narrowed their fiscal 2023 guidance, expecting to achieve FFO/share between $2.65 and $2.67 (from $2.64 to $2.68). We utilize the midpoint of this range in our estimates, which implies year-over-year growth of 5.1%.

On December 7th, 2023, CubeSmart increased its quarterly dividend 4.1%, from $0.49 to $0.51, marking the REITs 14th consecutive annual dividend increase.

Safety & Dividend Risk Analysis

The dividend of CubeSmart is reasonably secure. Based on projected 2023 FFO, the 2023 payout ratio is 77%, which is sound for a REIT. The fact that the company's properties are located in prime markets with good visibility and robust growth potential is an advantage. The high demand for storage is another tailwind to the company's results. Additionally, CubeSmart has a large number of customers, which provides the company with good cash flow diversification.

The REIT has managed to increase its dividend every year since 2009. The dividend was reduced in 2009, calling into question CubeSmart's recession resiliency in the event of a severe and protracted recession. The company did navigate COVID well, with new FFO per unit highs in both 2020 and 2021.

Growth, Value & Expected Total Return Analysis

CubeSmart has achieved notable revenue and FFO per share growth through its focus on lucrative properties, followed by operational efficiencies coupled with low-cost financing. The company has grown its FFO per share every year over the last decade, at a 12.6% average annual rate. This is an impressive performance record. We prefer to be conservative in our estimates and expect FFO per share to grow by 6% per year on average in the medium term, weighed down by rising interest rates.

Based on expected 2023 FFO per share of $2.66, CubeSmart trades for a price-to-FFO ratio (P/FFO) of 17.1, which is above our fair value P/FFO estimate of 14.0. Given 6.0% earnings growth and a 4.5% dividend yield, we expect total returns of 6.3% per year over the next five 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. Sort by Dividend Risk Score, highest to lowest.
4. Filter for expected total returns above that of the S&P 500.
5. Manually review each REIT for safety. The review process looks at dividend history, payout ratio, and qualitative factors.

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 870+ securities in Sure Analysis – including more than 120 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, provide reasonable safety, 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 if the $10 was earned and distributed by a corporation versus a REIT:

Note: *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	
Pre-Tax Income	$10.00
Corporate Income Tax	-$2.10
After-Tax Income	**$7.90**
Qualified Dividend Tax	-$1.58
Dividend After Tax	**$6.32**

REIT	
Distributable Cash	$10.00
After-Tax Funds From Operations	**$10.00**
Ordinary Income Tax @37%	-$2.07
Capital Gains Tax @20%	-$0.30
Return of Capital Tax @20%	-$0.30
Distribution After Taxes	**$7.33**

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%. Note: these distributions may benefit from a 20% deduction in qualified business income. 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.

Click on the name of any REIT below to go to that REIT's Sure Analysis page (if you are a member of the *Sure Analysis Research Database*).

1. Clipper Realty Inc (CLPR): 7.3%
2. Brandywine Realty Trust (BDN): 10.8%
3. Medical Properties Trust Inc (MPW): 16.5%
4. Douglas Emmett Inc (DEI): 5.2%
5. UMH Properties Inc (UMH): 5.2%
6. Community Healthcare Trust Inc (CHCT): 7%
7. American Assets Trust Inc (AAT): 5.6%
8. Uniti Group Inc (UNIT): 10.5%
9. Global Net Lease Inc (GNL): 14.8%
10. Ellington Residential Mortgage REIT (EARN): 15.7%
11. Highwoods Properties, Inc. (HIW): 8.5%
12. Healthpeak Properties Inc. (PEAK): 6%
13. Mid-America Apartment Communities (MAA): 4.5%
14. Independence Realty Trust Inc (IRT): 4.3%
15. Ellington Financial Inc (EFC): 14.2%
16. LTC Properties, Inc. (LTC): 7%
17. CTO Realty Growth Inc (CTO): 8.9%
18. UDR Inc (UDR): 4.4%
19. Cousins Properties Inc. (CUZ): 5.2%
20. Piedmont Office Realty Trust Inc (PDM): 6.7%
21. Healthcare Realty Trust Inc (HR): 7.1%
22. SL Green Realty Corp. (SLG): 7%
23. Annaly Capital Management Inc (NLY): 13.3%
24. Gaming and Leisure Properties Inc (GLPI): 6.2%
25. Safehold Inc. (SAFE): 3.2%
26. Chimera Investment Corp (CIM): 8.7%
27. KKR Real Estate Finance Trust Inc (KREF): 13.1%
28. VICI Properties Inc (VICI): 5.3%
29. AGNC Investment Corp (AGNC): 14.5%
30. NexPoint Residential Trust Inc (NXRT): 5.6%
31. Four Corners Property Trust Inc (FCPT): 5.5%
32. Agree Realty Corp. (ADC): 4.7%
33. Alexandria Real Estate Equities Inc. (ARE): 3.7%
34. One Liberty Properties, Inc. (OLP): 8.3%
35. National Storage Affiliates Trust (NSA): 5.7%
36. Omega Healthcare Investors, Inc. (OHI): 8.8%
37. Ares Commercial Real Estate Corp (ACRE): 12.8%
38. Physicians Realty Trust (DOC): 7%
39. Public Storage. (PSA): 4.1%
40. Innovative Industrial Properties Inc (IIPR): 7.7%
41. Two Harbors Investment Corp (TWO): 13.2%
42. Apple Hospitality REIT Inc (APLE): 5.8%
43. American Tower Corp. (AMT): 3.3%
44. Sabra Healthcare REIT Inc (SBRA): 8.6%
45. COPT Defense Properties (CDP): 4.5%
46. Universal Health Realty Income Trust (UHT): 7%
47. Rithm Capital Corporation (RITM): 9.5%
48. National Health Investors, Inc. (NHI): 6.6%
49. Kite Realty Group Trust (KRG): 4.5%
50. SBA Communications Corp (SBAC): 1.4%
51. Easterly Government Properties Inc (DEA): 7.8%
52. LXP Industrial Trust (LXP): 5.3%
53. Brixmor Property Group Inc (BRX): 4.7%
54. Gladstone Land Corp (LAND): 4%
55. EPR Properties (EPR): 6.9%
56. NETSTREIT Corp (NTST): 4.4%
57. Ventas Inc (VTR): 3.7%
58. Equity Residential Properties Trust (EQR): 4.3%
59. Ladder Capital Corp (LADR): 8%
60. Essential Properties Realty Trust Inc (EPRT): 4.4%
61. CareTrust REIT Inc (CTRE): 5.1%
62. Kilroy Realty Corp. (KRC): 5.2%
63. Plymouth Industrial REIT Inc (PLYM): 3.8%
64. Gladstone Commercial Corp (GOOD): 9%
65. W. P. Carey Inc (WPC): 5.2%
66. Arbor Realty Trust Inc. (ABR): 11.4%
67. Alpine Income Property Trust Inc (PINE): 6.8%
68. Postal Realty Trust Inc (PSTL): 6.7%
69. Realty Income Corp. (O): 5.2%
70. Digital Realty Trust Inc (DLR): 3.6%
71. Urban Edge Properties (UE): 3.5%
72. Dream Industrial Real Estate (DREUF): 5.1%
73. Equinix Inc (EQIX): 2.1%
74. Sachem Capital Corp (SACH): 11.6%
75. NNN REIT Inc (NNN): 5.3%
76. Essex Property Trust, Inc. (ESS): 3.7%

77. Starwood Property Trust Inc (STWD): 9.1%
78. American Homes 4 Rent (AMH): 2.4%
79. AvalonBay Communities Inc. (AVB): 3.6%
80. Apollo Commercial Real Estate Finance (ARI): 11.8%
81. Blackstone Mortgage Trust Inc (BXMT): 11.3%
82. STAG Industrial Inc (STAG): 3.8%
83. PennyMac Mortgage Investment Trust (PMT): 10.8%
84. CubeSmart (CUBE): 4.5%
85. Crown Castle Inc (CCI): 5.5%
86. Spirit Realty Capital Inc (SRC): 6%
87. Global Medical REIT Inc (GMRE): 7.9%
88. Saul Centers, Inc. (BFS): 6%
89. Weyerhaeuser Co. (WY): 2.2%
90. Equity Lifestyle Properties Inc. (ELS): 2.6%
91. Macerich Co. (MAC): 4.3%
92. First Industrial Realty Trust, Inc. (FR): 2.4%
93. Simon Property Group, Inc. (SPG): 5.3%
94. Choice Properties Real Estate (PPRQF): 5.1%
95. Invitation Homes Inc (INVH): 3.3%
96. Regency Centers Corporation (REG): 4.2%
97. EastGroup Properties, Inc. (EGP): 2.8%
98. Whitestone REIT (WSR): 4.1%
99. Lamar Advertising Co (LAMR): 4.8%
100. Prologis Inc (PLD): 2.6%
101. Camden Property Trust (CPT): 4.1%
102. Modiv Industrial Inc (MDV): 7.6%
103. RPT Realty (RPT): 4.4%
104. Boston Properties, Inc. (BXP): 5.4%
105. City Office REIT Inc (CIO): 6.3%
106. Extra Space Storage Inc. (EXR): 4.1%
107. Paramount Group Inc (PGRE): 2.9%
108. Federal Realty Investment Trust. (FRT): 4.2%
109. Acadia Realty Trust (AKR): 4.2%
110. Industrial Logistics Properties Trust (ILPT): 0.9%
111. Kimco Realty Corporation (KIM): 4.6%
112. Dynex Capital, Inc. (DX): 12.2%
113. Tanger Inc. (SKT): 3.8%
114. ARMOUR Residential REIT Inc (ARR): 14.4%
115. Iron Mountain Inc. (IRM): 3.9%
116. Welltower Inc. (WELL): 2.7%
117. Phillips Edison & Company Inc (PECO): 3.3%
118. Orchid Island Capital Inc (ORC): 16.5%
119. National Healthcare Corp. (NHC): 2.5%
120. Generation Income Properties Inc (GIPR): 11%
121. Empire State Realty Trust Inc (ESRT): 1.4%
122. Rayonier Inc. (RYN): 3.5%
123. Vornado Realty Trust (VNO): 1.3%
124. Americold Realty Trust Inc (COLD): 2.9%
125. New York Mortgage Trust Inc (NYMT): 9.5%

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