Top 10 REITs

May 2024 Edition

A monthly special report service from Sure Dividend

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Top 10 REITs – May 2024

Name & Ticker	Price	Fair Value	Payout Ratio	Div. Risk Score	Div. Yield	Exp. Growth Return	Exp. Value Return	Exp. Total Return
SBA Communications (SBAC)	$198	$226	30%	B	2.0%	8.0%	2.6%	12.7%
CubeSmart (CUBE)	$42	$40	77%	C	4.8%	6.0%	-1.2%	9.1%
Alexandria Real Estate (ARE)	$121	$152	54%	D	4.2%	5.0%	4.7%	13.2%
Cousins Properties (CUZ)	$24	$32	49%	D	5.4%	2.0%	6.1%	12.0%
Plymouth Industrial (PLYM)	$21	$25	51%	D	4.6%	4.5%	3.6%	11.5%
Kite Realty Group (KRG)	$21	$25	49%	D	4.7%	4.0%	3.3%	10.8%
NexPoint (NXRT)	$36	$35	58%	D	5.2%	4.0%	-0.4%	9.0%
First Industrial Realty (FR)	$48	$48	57%	D	3.1%	6.0%	0.0%	8.7%
Crown Castle (CCI)	$100	$123	91%	D	6.3%	-1.0%	4.3%	8.4%
EastGroup Properties (EGP)	$165	$151	61%	D	3.1%	7.0%	-1.8%	8.1%

Notes: *Data for the table above is from the 5/10/24 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*

Federal Realty (FRT), Universal Health (UHT), Realty Income (O), NNN REIT (NNN), Essex Property Trust (ESS), American Tower (AMT), Public Storage (PSA) and Digital Realty Trust (DLR) were replaced from last month's Top 10 by Alexandria Real Estate (ARE), Cousins Properties (CUZ), Plymouth Industrial (PLYM), Kite Realty Group (KRG), NexPoint Residential (NXRT), First Industrial Realty Group (FR), Crown Castle (CCI) and EastGroup Properties (EGP). The higher number of changes in this month's Top 10 is due to earnings season.

The Top 10 has the following average characteristics:

	Top 10 REITs	S&P 500
Dividend Yield:	4.3%	1.4%
Growth Rate:	4.6%	5.5%
Valuation Return:	2.1%	-0.6%
Expected Annual Total Returns:	10.4%	6.2%

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 5/7/24 through 5/10/24.

SBA Communications Corp. (SBAC)

Dividend Yield: 2.0%
5-Year Expected Annual Total Returns: 12.9%

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 leases its towers 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 $21 billion market cap.

On February 26th, 2024, SBA Communications increased its dividend by 15.3% to a quarterly rate of $0.98.

On April 29th, 2024, SBA posted its Q1 results for the period ending March 31st, 2024. For the quarter, revenues came in at $667.9 million, 2.5% lower year-over-year. Adjusted funds from operations (AFFO) grew by 4.6% year-over-year to $357.4 million. On a per-share basis, AFFO grew by 5.1% to $3.29, boosted further by share buybacks.

Management revised its FY2024 outlook. They are now expecting AFFO/share to be between $13.09 and $13.46 (down from $13.15 to $13.51). We have applied the midpoint of $13.28 in our estimates.

Safety & Dividend Risk Analysis

We consider SBA's dividend extremely safe based on its payout ratio of just 30% of expected fiscal 2024 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, as well as contractually secured and predictable revenues. SBA also regularly repurchases units, which is unusual for a REIT. The unit count has declined by 1.9% annually from 2014 through 2023. Looking ahead, we expect SBA to generate annualized growth of 8.0% on a per unit basis.

SBA trades for a price-to-FFO ratio of 14.9, below our fair value estimate of 17.0. Valuation multiple expansion could boost returns by 2.8% annually over the next 5 years. The valuation tailwind combined with 8.0% expected growth and the 2.0% dividend yield combine for expected annual total returns of 12.9% over the next 5 years.

CubeSmart (CUBE)

Dividend Yield: 4.9%
5-Year Expected Annual Total Returns: 9.6%

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 United States. The company owns 613 self-storage properties, totaling 44.4 million rentable square feet in the District of Columbia and 24 other states. In addition, the company manages 860 stores for third parties. The company has a $9.5 billion market cap and generates ~$1 billion in annual revenue. CubeSmart is based in Malvern, Pennsylvania.

On April 25th, 2024, CubeSmart reported its Q1 results for the period ending March 31st, 2024. For the quarter, revenues grew by 1.9% to $261.4 million year-over-year. Higher revenues were primarily attributable to revenues generated from property acquisitions and a larger number of managed properties.

Same-store revenues came in flat due to a relatively stable number of owned properties. However, same-store net operating income (NOI) fell by 1.9% year-over-year due to a 5% increase in same-store property operating expenses. Accordingly, funds from operations (FFO) fell by 1.3% to $146.4 million. On a per-share basis, FFO came in at $0.64 compared to $0.65 last year. It's worth mentioning that same-store occupancy at the end of the quarter was 90.2%, modestly lower than last year's 91.3%.

For FY2024, management expects to achieve FFO/share between $2.59 and $2.69. We have applied the midpoint of this range in our estimates.

Safety & Dividend Risk Analysis

The dividend of CubeSmart is secure. Based on projected 2024 adjusted funds from operations (AFFO), the 2024 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 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 AFFO per unit highs in both 2020 and 2021.

Growth, Value & Expected Total Return Analysis

CubeSmart has achieved notable revenue and AFFO per share growth through its focus on lucrative properties, followed by operational efficiencies coupled with low-cost financing. The company has grown its AFFO per share every year over the last decade, at an 11.2% average annual rate. This is an impressive performance record. We prefer to be conservative in our estimates and expect AFFO per share to grow by 6% per year on average in the medium term, weighed down by rising interest rates.

Based on expected 2024 AFFO per share of $2.64, CubeSmart trades for a price-to-AFFO ratio (P/AFFO) of 15.8, which is above our fair value P/AFFO estimate of 15.0. Given 6.0% earnings growth, a 4.9% dividend yield, and a 0.8% valuation multiple contraction, we expect total returns of 9.6% per year over the next five years.

Alexandria Real Estate Equities Inc. (ARE)

Dividend Yield: 4.3%
5-Year Expected Annual Total Returns: 13.3%

Overview & Current Events

Alexandria Real Estate Equities is a REIT that owns and manages life science, technology, and agtech campuses across North America. It was formed in 1994 and is named after Alexandria, Egypt, in honor of the scientific capital of the ancient world.

The company focuses on high-quality properties in prime locations, including Boston, San Francisco, New York, San Diego, Seattle, Maryland, and the Research Triangle.

More than fifty percent of the company's tenants are investment-grade or publicly traded large cap businesses.
On December 4th, 2023, Alexandria raised its quarterly dividend by 2.4% to $1.27, marking 13 years of consecutive dividend increases.

Alexandria reported first quarter 2024 results on April 22nd, 2024, for the period ending March 31st, 2024. For the quarter, the company generated $769 million in revenue, up 9.7% from Q1 2023. Adjusted funds from operations (AFFO) were $404 million or $2.35 per share compared to $374 million or $2.19 per share in the first quarter of 2023.

Alexandria narrowed its 2024 guidance, now expecting $9.41 to $$9.53 (from $9.37 to $9.57 previously) in AFFO, for a $9.47 midpoint.

Safety & Dividend Risk Analysis

Alexandria's competitive advantage stems from its focus on quality properties in prime locations in a needed and growing industry. Furthermore, the REIT employs a unique "cluster model" that prioritizes proximity to world-class academic institutions, leading scientific and managerial talent, and sophisticated investment capital.

Alexandria has paid increasing dividends for 13 consecutive years. The trust reduced its dividend in 2009 at the height of the Great Recession but has since increased it each year. It did not exceed its annual dividend payments from 2008 until 2016. But since 2016, Alexandria has delivered AFFO and dividend per share highs every year, including through COVID. With a conservative payout ratio of just 54% of projected fiscal 2024 AFFO, Alexandria's dividend is likely to continue growing, absent a prolonged recession.

Growth, Value & Expected Total Return Analysis

Alexandria leverages its distinct cluster model to drive continued growth. This, together with new developments and advances in life science, should provide a long runway for growth. Moving forward we believe Alexandria can continue to grow at a reasonable pace and we are expecting 5% intermediate-term growth.

Alexandria trades at 12.6 times projected AFFO per share of $9.47 in 2024. Our fair value estimate for this REIT is a P/AFFO ratio of 16.0. A rising P/AFFO multiple could increase shareholder returns by 4.9% per year, adding to the 4.3% dividend yield and 5.0% annual AFFO per share growth. We expect annualized total returns of 13.3% over the next five years.

Cousins Properties Inc. (CUZ)

Dividend Yield: 5.4%
5-Year Expected Annual Total Returns: 12.4%

Overview & Current Events

Cousins Properties (CUZ) is a REIT that acquires, develops, and leases office buildings in high-growth Sun Belt markets. It generates 53% of its operating income in Atlanta and 32% of its operating income in Austin. Sun Belt markets are attractive thanks to their superior economic growth compared to most other regions of the U.S.

In the first quarter, funds from operations (FFO) per share remained flat at $0.65, as an increase in interest expense amid high interest rates offset higher rental rates. Same-property net operating income grew 6.6%. Management reiterated that it expects demand for office space to begin to recover this year and slightly improved its guidance for FFO per share for the full year, from $2.57-$2.67 to $2.60-$2.67.

On the other hand, it is concerning that the REIT has not achieved meaningful growth in recent quarters even though the pandemic has subsided. The work-from-home trend has persisted much more than initially expected. Management has repeatedly mentioned the pressure due to the work-from-home trend and multi-year high interest rates, which have greatly increased interest expense. We expect flat FFO per share of $2.62 this year.

Safety & Dividend Risk Analysis

Cousins Properties has well-laddered lease expirations, which provide some sort of protection against wild fluctuations in cash flows. However, the company has a volatile performance record and a choppy dividend record, with only five consecutive years of dividend growth. Moreover, Cousins Properties has a weak balance sheet, with a leverage ratio of 5.25 and net debt of $2.9 billion. As this amount of debt is approximately 7 times the annual FFO, it is easily manageable under normal economic conditions, but the REIT is vulnerable to recessions due to its weak balance sheet and the sensitivity of its tenants to recessions. Overall, while the 5.4% dividend yield of Cousins Properties may entice some investors, the REIT is not suitable for income-oriented investors.

Growth, Value & Expected Total Return Analysis

Cousins Properties operates in Sun Belt markets, which are characterized by superior economic growth. However, the trust has exhibited a volatile performance record, which raises a red flag. In addition, it has been caught with a material debt load in the downturn caused by remote work, hence it has been forced to sell assets in order to strengthen its balance sheet. Given the expected business recovery from the pandemic but also the headwind from 16-year high interest rates, we expect 2.0% average annual growth of FFO per share over the next five years.

Based on expected 2024 FFO per share of $2.62, Cousins Properties trades at a price-to-FFO ratio of 9.0. Our fair value estimate for this REIT is a P/FFO of 12.4. An expanding P/FFO multiple could boost shareholder returns by 6.6% per year. We also expect annualized growth of FFO per share of 2.0%, nicely complementing the 5.4% dividend yield. We thus expect annualized total returns of 12.4% over the next five years.

Plymouth Industrial REIT (PLYM)

Dividend Yield: 4.6%
5-Year Expected Annual Total Returns: 11.8%

Overview & Current Events

Plymouth Industrial REIT is a full-service, vertically integrated real estate investment trust that acquires, owns, and manages single and multi-tenant industrial buildings, including distribution centers, warehouses, light industrial, and small bay industrial properties. The trust owns and operates 211 properties totaling 34 million square feet.

Plymouth's property portfolio resides almost entirely within The Golden Triangle states, which are within a day's drive to 70% of the U.S. population, and contains more ports than any other region in the country.

Plymouth Industrial reported Q1 2024 results on May 1st, 2024. The trust reported core funds from operations (FFO) of $0.45 per common share, flat year-over-year. Adjusted FFO (AFFO) per share of $0.45 was a five-cent increase compared to Q1 2023.

Leadership reaffirmed its 2024 guidance, forecasting core FFO per share to be $1.88 to $1.92. Same store occupancy is estimated to be between 97.5% and 98.5% for the year.

Safety & Dividend Risk Analysis

Plymouth Industrial's payout ratio was stretched when the trust became public, posting ratios of above 100% until 2019. However, in 2020, the trust slashed the dividend, and the payout ratio became far more reasonable. For 2024, we project a payout ratio of 51%, which is well covered by AFFO. Since the trust has cut the dividend once in its history, the chances of it happening again are increased. Furthermore, the trust reduced the payout prematurely, which was unnecessary given that industrial properties performed well during the pandemic due to increased e-commerce and warehousing demand.

The location of Plymouth's properties, which are mostly located in the Golden Triangle states, can be considered a competitive advantage, as it makes its properties particularly attractive. Additionally, Plymouth acquired its current portfolio (worth $1.6 billion) at a 53% discount to replacement cost, giving the trust a defensive edge. This enables the trust to profit even if it charges lower rents than its competitors, which has a positive impact on its occupancy rate.

Growth, Value & Expected Total Return Analysis

From 2018 to 2023, Plymouth grew adjusted FFO by 15% annually. Given the short trading history of Plymouth, it's difficult to predict a sustainable level of growth in the medium term, but we believe it can increase AFFO per share by 4.5% annually. It will achieve this growth by expanding its industrial property portfolio.

Shares of Plymouth trade with a price-to-AFFO ratio of 10.9, compared to our target multiple of 13.0, implying a 3.9% annual contribution from multiple expansion over the next five years.

Therefore, Plymouth Industrial is expected to produce annual total returns of 11.8% through 2029, thanks to a 4.5% AFFO growth rate, the starting yield of 4.6%, and 3.9% price-to-AFFO multiple expansion.

Kite Realty Group Trust (KRG)

Dividend Yield: 4.6%
5-Year Expected Annual Total Returns: 10.5%

Overview & Current Events

Kite Realty Group Trust is a full-service, vertically integrated real estate investment trust (REIT) that primarily owns open-air community shopping centers across the U.S. The trust manages a diverse portfolio of community, neighborhood, and lifestyle centers. Kite Realty Group owns 180 operating retail properties totaling 28 million square feet.

On February 7th, 2024, Kite Realty declared a $0.25 quarterly distribution, which was 4% higher year-over-year. The trust has raised its dividend for four years straight.

Kite Realty Group reported first quarter 2024 results on April 30th, 2024. The trust recorded funds from operations (FFO) of $113 million, or $0.50 per diluted common share compared to $114 million, or $0.51 per share in first quarter 2023. KRG's same-property net operating income (NOI) increased by 1.8%.

During the quarter, the trust executed 185 new and renewal leases covering 1.0 million square feet. Annualized base rent (ABR) per square foot for the retail portfolio increased 4.0% year-on-year to $20.84. And Kite Realty's net-debt-to-Adjusted EBITDA was 5.1x at quarter end.

Leadership raised its fiscal 2024 guidance and now projects adjusted FFO (AFFO) of $2.02 to $2.08 (from $2.00 to $2.06 previously) per share for the full year.

Safety & Dividend Risk Analysis

Kite Realty Group slashed its dividend in 2019 after a series of increases, and then it was further reduced in 2020 amidst the COVID pandemic. As a result, in the most recent years, the payout ratio was fairly covered, but investors cannot count on Kite Realty for continuously higher payouts. During the great recession, like most other real estate related companies, Kite Realty Group suffered greatly. The great recession saw Kite Realty's peak dividend of $3.28 in 2008 fall more than 66% to $0.96 in 2010. It still has not recovered near that level and is expected to pay $1.00 in dividends for 2024.

Kite Realty's property portfolio is focused in Sun Belt markets and concentrates on grocery-anchored centers with mixed-use and lifestyle assets, which can be slight competitive advantages for the trust.

Growth, Value & Expected Total Return Analysis

Over the last nine and five years, Kite Realty has grown AFFO per share by 1.5% and 0.3% annually, respectively. Kite Realty will grow by expanding the number of retail properties, states, and markets in which it operates, as well as increasing the annualized base rent per square foot of its property portfolio. Over the next five years, we expect that Kite Realty will grow its AFFO per share by 4.0% annually.

Kite Realty trades for a price-to-AFFO ratio of 10.5, which is below our fair value estimate of 12.0. Multiple expansion could increase returns by 3.0% annually over the next five years. The valuation tailwind, along with 4.0% expected growth and the 4.6% dividend yield results in forecasted annual total returns of 10.5% over the next five years.

NexPoint Residential Trust Inc. (NXRT)

Dividend Yield: 5.3%
5-Year Expected Annual Total Returns: 9.5%

Overview & Current Events

NexPoint Residential Trust is a REIT primarily focused on acquiring, owning, and operating well-located middle-income multifamily properties with value-add potential in large cities, primarily in the Southeastern and Southwestern U.S. The value-add component refers to the properties where the company can invest capital to provide lifestyle amenities to workforce and middle-income housing. This value-add strategy aims to provide both highly improved communities for the residents and outsized returns for the shareholders. The REIT is invested in a total of 39 multifamily properties, with the highest location exposures in Phoenix, South Florida, and Dallas/Fort Worth.

In the first quarter of 2024, occupancy improved from 94.4% in the prior year's quarter to 94.7% and same-store net operating income grew 4%. As a result, funds from operations (FFO) per share grew 6%, from $0.71 to $0.75, and exceeded the analysts' estimates by $0.04. On the other hand, management reiterated its outlook for fiscal 2024, expecting AFFO/share of $3.19. The 3% decline compared to fiscal 2023 is due to a tougher residential real estate market and higher interest rates. It is also important to note that interest expense has exceeded operating income in each of the last 10 quarters due to high interest rates. Therefore, if inflation does not revert to the Fed's target range of 2.0%-2.5% anytime soon, the stock is likely to remain under pressure.

Safety & Dividend Risk Analysis

Due to the premium that NexPoint Residential Trust charges for its enhanced amenities proposition, its performance depends strongly on the health of middle to high-class income levels. As a result, the REIT is vulnerable to recessions, more than its low-end competitors in the residential market.

NexPoint Residential Trust has raised its dividend for 8 consecutive years and is now offering a 5.3% dividend yield, with a healthy payout ratio of 58%. However, due to the surge of interest rates to a 16-year high, the interest expense of the REIT has exceeded operating income by a wide margin in the last 12 months ($65 million vs. $42 million). As a result, the dividend may be cut whenever the REIT faces an unexpected downturn.

Growth, Value & Expected Total Return Analysis

Since it became public in its current form, in 2015, NexPoint Residential Trust has grown its FFO per share at a fast pace, from $1.41 in 2015 to $3.29 in 2023. However, due to high interest rates, the REIT is poised to incur a decline in FFO for a second year in a row this year. Nevertheless, we expect interest rates to deflate to normal levels in the upcoming years. Also given the strong demand of affluent consumers for the REIT's high-end properties, we expect 4.0% growth of FFO per share over the next five years.

The REIT is currently trading at a price-to-FFO ratio of 11.0, which is equal to our assumed fair valuation level. Given also a 5.3% dividend and 4.0% growth, the REIT could offer a 9.5% total annual return over the next five years.

First Industrial Realty Trust Inc. (FR)

Dividend Yield: 3.1%
5-Year Expected Annual Total Returns: 9.3%

Overview & Current Events

First Industrial Realty Trust was founded in 1994. The REIT is a leading fully integrated owner, operator, and developer of industrial real estate with a track record of providing industry-leading customer service to multinational corporations and regional customers. Across major markets in the U.S., First Industrial Realty Trust local market experts manage, lease, buy, redevelop, and sell bulk and regional distribution centers, light industrial, and other industrial facility types. In total, the Trust owns and has approximately 68.5 million square feet of industrial space under development.

On April 17th, 2024, First Industrial Realty Trust reported results for the first quarter of 2024. The REIT had a positive start to the year. Its occupancy remained sequentially flat at 95.5% but its cash rental rates on new and renewal leases jumped 45% over the prior year's quarter. Interest expense increased 18% due to 16-year high interest rates but funds from operations (FFO) per share grew 5%, from $0.57 to $0.60. FFO per share missed the analysts' estimates (by $0.01) for the first time after 20 consecutive quarters. Nevertheless, the REIT provided positive guidance for the full year, expecting FFO per share of $2.53-$2.63. This guidance implies 6% growth at the mid-point. We expect FFO per share of $2.60 this year, which will mark an all-time high if it proves correct.

Safety & Dividend Risk Analysis

The primary competitive advantage of First Industrial Realty Trust is in its management team. The execution of high-quality industrial property acquisitions, as well as the construction of new facilities, has led the REIT to grow its FFO per share every single year over the last decade. However, the trust is vulnerable to recessions due to the vulnerability of its customers. During the Great Recession, the REIT incurred hefty losses.

First Industrial Realty Trust has raised its dividend for 12 consecutive years and is currently offering a 3.1% dividend, with a healthy payout ratio of 57% and an S&P credit rating of BBB, an investment grade. Nevertheless, the dividend is not entirely safe due to the sensitivity of the REIT to underlying economic conditions.

Growth, Value & Expected Total Return Analysis

First Industrial Realty Trust has grown its FFO per share every single year over the last decade, at an 8.6% average annual rate. The consistent growth record is a testament to the quality of the REIT's business model. However, due to the headwind from high interest rates, which hurt both the demand for real estate and the REIT's bottom line via high interest expense, we expect 6% growth of FFO per share over the next five years.

The stock is currently trading at 18.1 times our estimate of 2024 FFO. Our fair value multiple is 18.5 times FFO, indicating the potential for a 0.5% annual tailwind from the valuation. When combined with the 3.1% dividend yield and 6.0% growth of FFO per share, potential total returns could be 9.3% per year over the next five years.

Crown Castle Inc. (CCI)

Dividend Yield: 6.5%
5-Year Expected Annual Total Returns: 9.0%

Overview & Current Events

Crown Castle International was founded in 1994 and has since become a powerhouse in the data infrastructure business. It is structured as a REIT and operates cell phone towers with small cells where larger towers are not feasible, and fiber connections for data transmission. The trust owns, operates and leases more than 40,000 cell towers and approximately 90,000 route miles of fiber across every major U.S. market.

In the first quarter, Crown Castle saw its site rental revenue decline 2% over the prior year's quarter and its funds from operations (FFO) per unit decrease 10%, from $1.92 to $1.72. The REIT exceeded the analysts' consensus by $0.03 and thus it has now beaten the analysts' estimates in 10 of the last 12 quarters. However, it reaffirmed its poor guidance for FFO per unit of $6.85-$6.97 in 2024, implying a 7% decline at the midpoint. Due to the slow start to the year and the lackluster business momentum, we expect FFO per share of about $6.85 this year, at the low end of management's guidance, in order to be on the safe side.

Safety & Dividend Risk Analysis

As a utility in the burgeoning telecommunications industry, Crown Castle has proved resilient to recessions. It performed very well during the Great Recession and is likely to remain resilient whenever the next recession shows up. On the other hand, its competitive advantage is somewhat weak, as the REIT provides a service with a relatively low barrier to entry.

Crown Castle has raised its dividend for 8 consecutive years and has grown its dividend by 7.6% per year on average over the last five years. In addition, the stock is currently offering a 10-year high dividend yield of 6.5%. However, the payout ratio is elevated, at 91%, and is certainly high from a historical point of view. The REIT has a decent balance sheet, with an interest coverage ratio of 2.8, but the high payout ratio and the poor business momentum signal that the dividend is not safe.

Growth, Value & Expected Total Return Analysis

Crown Castle has grown its FFO per unit by 6.9% per year on average over the last decade thanks to the burgeoning demand of consumers for access to data. In addition, the REIT is ideally positioned in metropolitan areas with favorable characteristics. Nevertheless, we are cautious over the business deceleration lately, partly due to the low retention of tenants. Therefore, in order to be on the safe side, we have assumed a -1.0% average annual decrease of FFO per unit over the next five years.

The stock is trading at 14.2 times our estimate of 2024 FFO. Our fair value multiple is 18.0 times FFO, in line with the stock's recent history, indicating the potential for a 4.9% annual tailwind from the valuation. When combined with the 6.5% yield and a -1.0% decline of FFO per unit, potential total returns could be 9.0% per year over the next five years.

EastGroup Properties Inc. (EGP)

Dividend Yield: 3.1%
5-Year Expected Annual Total Returns: 8.5%

Overview & Current Events

EastGroup Properties is an internally managed REIT with a 55-year history. The trust is a leading provider of multi-tenant distribution and logistics facilities primarily in Sunbelt markets, such as Florida, Texas, Arizona, California, and North Carolina. The REIT owns 487 industrial properties and one office building in 11 states. Its property portfolio is currently 98% leased to over 1,550 tenants, with none of the tenants accounting for more than 1.8% of the total annualized base rent (ABR).

On April 23rd, 2024, EastGroup reported its results for Q1 of 2024. Revenues grew 13% over the prior year's quarter thanks to increased leasing activity, growing rental rates, and several acquisitions over the past four quarters. Funds from operations (FFO) per share grew 8%, from $1.84 to $1.98. Notably, the REIT has grown its FFO per share on a year-over-year basis for 44 consecutive quarters. This is an outstanding performance record, which is a testament to the strength of this REIT's business model and perfect execution. In addition, management provided strong guidance for the full year, expecting FFO per share of $8.17-$8.37. At the midpoint, this guidance implies 6% growth, to a new all-time high. Given the sustained business momentum of the REIT and its tendency to issue conservative guidance, we expect FFO per share of at least $8.37 this year.

Safety & Dividend Risk Analysis

EastGroup showcases some of the highest quality characteristics amongst its peers. These include record occupancy rates, excellent rental growth prospects thanks to favorable demographics, and relatively cheap financing, including an average cost of debt of around 3.37%. The REIT displays a great competitive advantage by specializing in the Sunbelt region.

EastGroup has raised its dividend for 13 consecutive years and is currently offering a 3.1% dividend yield. Given its solid payout ratio of 61% and its reliable growth trajectory, the REIT is likely to continue raising its dividend for many more years.

Growth, Value & Expected Total Return Analysis

EastGroup has one of the most impressive performance records in the REIT sector. It greatly benefits from an ever-growing demand for distribution centers amid e-commerce's growth and excellent demographic tailwinds. Its properties are located in 13 of the 15 fastest-growing markets in the U.S., while its two largest by income states, Texas (~35% of ABR) and Florida (~25% of ABR), are likely to see strong rental growth ahead amid their overall net adds in populations and income-tax-free statuses. We expect 7.0% growth of FFO per share over the next five years.

The REIT is trading at a price-to-FFO ratio of 19.3, which is higher than our assumed fair price-to-FFO of 18.0. Valuation multiple contraction could reduce annual total returns by 1.4% over the next five years. Including the 3.1% dividend yield and 7.0% growth rate, EastGroup could offer an 8.5% average annual return 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 840+ 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. Office Properties Income Trust (OPI): 1.7%
2. Clipper Realty Inc (CLPR): 9.4%
3. Uniti Group Inc (UNIT): 15.5%
4. Brandywine Realty Trust (BDN): 12.9%
5. Community Healthcare Trust Inc (CHCT): 7.7%
6. Medical Properties Trust Inc (MPW): 13.5%
7. Global Net Lease Inc (GNL): 15.2%
8. American Assets Trust Inc (AAT): 6.1%
9. Healthcare Realty Trust Inc (HR): 8.1%
10. Chimera Investment Corp (CIM): 10.4%
11. Healthpeak Properties Inc. (DOC): 6.3%
12. Douglas Emmett Inc (DEI): 5.5%
13. Ellington Credit Co. (EARN): 13.6%
14. Equinix Inc (EQIX): 2.5%
15. Alexandria Real Estate Equities Inc. (ARE): 4.3%
16. Rexford Industrial Realty Inc (REXR): 3.7%
17. Safehold Inc. (SAFE): 3.7%
18. CTO Realty Growth Inc (CTO): 8.8%
19. VICI Properties Inc (VICI): 5.7%
20. SBA Communications Corp (SBAC): 2%
21. American Tower Corp. (AMT): 3.6%
22. Piedmont Office Realty Trust Inc (PDM): 7.3%
23. Agree Realty Corp. (ADC): 5.2%
24. Ares Commercial Real Estate Corp (ACRE): 14.5%
25. Public Storage. (PSA): 4.5%
26. Cousins Properties Inc. (CUZ): 5.4%
27. Plymouth Industrial REIT Inc (PLYM): 4.7%
28. Apple Hospitality REIT Inc (APLE): 6.5%
29. Easterly Government Properties Inc (DEA): 9%
30. Mid-America Apartment Communities (MAA): 4.4%
31. Independence Realty Trust Inc (IRT): 3.9%
32. Kilroy Realty Corp. (KRC): 6.5%
33. Annaly Capital Management Inc (NLY): 13.2%
34. LXP Industrial Trust (LXP): 6%
35. Universal Health Realty Income Trust (UHT): 7.8%
36. Four Corners Property Trust Inc (FCPT): 5.8%
37. COPT Defense Properties (CDP): 4.8%
38. UMH Properties Inc (UMH): 5.4%
39. EPR Properties (EPR): 8.3%
40. Sachem Capital Corp (SACH): 13.8%
41. LTC Properties, Inc. (LTC): 6.8%
42. National Storage Affiliates Trust (NSA): 6.2%
43. Kite Realty Group Trust (KRG): 4.7%
44. AGNC Investment Corp (AGNC): 15.1%
45. Two Harbors Investment Corp (TWO): 14%
46. Blackstone Mortgage Trust Inc (BXMT): 13.9%
47. Sun Communities, Inc. (SUI): 3.2%
48. UDR Inc (UDR): 4.4%
49. Getty Realty Corp. (GTY): 6.4%
50. Apollo Commercial Real Estate Finance (ARI): 14%
51. Ladder Capital Corp (LADR): 8.3%
52. Ellington Financial Inc (EFC): 13.3%
53. KKR Real Estate Finance Trust Inc (KREF): 10.5%
54. Gladstone Land Corp (LAND): 4.2%
55. Omega Healthcare Investors, Inc. (OHI): 8.7%
56. NETSTREIT Corp (NTST): 4.8%
57. Global Medical REIT Inc (GMRE): 9.6%
58. STAG Industrial Inc (STAG): 4.2%
59. Gaming and Leisure Properties Inc (GLPI): 6.9%
60. Highwoods Properties, Inc. (HIW): 7.6%
61. Equity Residential Properties Trust (EQR): 4.1%
62. Alpine Income Property Trust Inc (PINE): 7.1%
63. Essential Properties Realty Trust Inc (EPRT): 4.2%
64. PennyMac Mortgage Investment Trust (PMT): 11%
65. CubeSmart (CUBE): 4.9%
66. NexPoint Residential Trust Inc (NXRT): 5.3%
67. W. P. Carey Inc (WPC): 6.1%
68. Brixmor Property Group Inc (BRX): 4.9%
69. Arbor Realty Trust Inc. (ABR): 12.7%
70. First Industrial Realty Trust, Inc. (FR): 3.1%
71. Crown Castle Inc (CCI): 6.4%
72. Gladstone Commercial Corp (GOOD): 8.2%
73. One Liberty Properties, Inc. (OLP): 7.7%
74. Urban Edge Properties (UE): 4%
75. SL Green Realty Corp. (SLG): 5.9%
76. Ventas Inc (VTR): 3.8%

77. Rithm Capital Corporation (RITM): 8.9%
78. Innovative Industrial Properties Inc (IIPR): 6.8%
79. AvalonBay Communities Inc. (AVB): 3.5%
80. EastGroup Properties, Inc. (EGP): 3.1%
81. Prologis Inc (PLD): 3.6%
82. Realty Income Corp. (O): 5.6%
83. Digital Realty Trust Inc (DLR): 3.5%
84. Equity Lifestyle Properties Inc. (ELS): 3%
85. Saul Centers, Inc. (BFS): 6.5%
86. Starwood Property Trust Inc (STWD): 9.6%
87. NNN REIT Inc (NNN): 5.4%
88. American Homes 4 Rent (AMH): 2.9%
89. New York Mortgage Trust Inc (NYMT): 13.3%
90. Postal Realty Trust Inc (PSTL): 7%
91. Boston Properties, Inc. (BXP): 6.5%
92. Essex Property Trust, Inc. (ESS): 3.9%
93. Simon Property Group, Inc. (SPG): 5.4%
94. City Office REIT Inc (CIO): 8.4%
95. Sabra Healthcare REIT Inc (SBRA): 8.1%
96. Whitestone REIT (WSR): 4.1%
97. Regency Centers Corporation (REG): 4.6%
98. CareTrust REIT Inc (CTRE): 4.7%
99. Weyerhaeuser Co. (WY): 2.6%
100. Welltower Inc. (WELL): 2.5%
101. Invitation Homes Inc (INVH): 3.2%
102. Extra Space Storage Inc. (EXR): 4.6%
103. Macerich Co. (MAC): 4.3%
104. Kimco Realty Corporation (KIM): 5.1%
105. Modiv Industrial Inc (MDV): 7.7%
106. Americold Realty Trust Inc (COLD): 3.8%
107. National Healthcare Corp. (NHC): 2.5%
108. Acadia Realty Trust (AKR): 4.3%
109. National Health Investors, Inc. (NHI): 5.5%
110. Federal Realty Investment Trust. (FRT): 4.3%
111. Paramount Group Inc (PGRE): 2.9%
112. Tanger Inc. (SKT): 3.9%
113. Camden Property Trust (CPT): 4%
114. Dynex Capital, Inc. (DX): 12.8%
115. ARMOUR Residential REIT Inc (ARR): 15.1%
116. Phillips Edison & Company Inc (PECO): 3.5%
117. Lamar Advertising Co (LAMR): 4.4%
118. Empire State Realty Trust Inc (ESRT): 1.5%
119. Rayonier Inc. (RYN): 3.8%
120. Iron Mountain Inc. (IRM): 3.3%
121. Orchid Island Capital Inc (ORC): 16.8%
122. Vornado Realty Trust (VNO): 3%
123. Choice Properties Real Estate (PPRQF): 5.8%
124. Generation Income Properties Inc (GIPR): 12.1%