Top 10 REITs

October 2024 Edition

A monthly special report service from Sure Dividend

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Published on October 13th, 2024

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Top 10 REITs – October 2024

Name & Ticker	Price	Fair Value	Payout Ratio	Years Div. Growth	Div. Yield	Exp. Growth Return	Exp. Value Return	Exp. Total Return
Universal Health (UHT)	$41	$44	80%	40	7.0%	2.5%	1.2%	9.3%
Equinix (EQIX)	$871	$805	49%	8	2.0%	9.0%	-1.6%	9.2%
SBA Communications (SBAC)	$233	$225	30%	5	1.7%	8.0%	-0.7%	9.1%
American Tower (AMT)	$218	$234	61%	13	3.0%	5.0%	1.4%	9.1%
Realty Income (O)	$61	$58	76%	27	5.1%	2.2%	-1.2%	6.1%
Alexandria Real Estate (ARE)	$115	$152	55%	14	4.5%	5.0%	5.7%	14.3%
STAG Industrial (STAG)	$37	$38	62%	13	4.0%	5.0%	0.6%	8.8%
Sun Communities (SUI)	$129	$136	53%	8	2.9%	5.0%	1.1%	8.5%
Equity LifeStyle (ELS)	$67	$61	66%	19	2.8%	6.0%	-2.0%	6.7%
First Industrial (FR)	$54	$48	57%	12	2.8%	6.0%	-2.2%	6.3%

Notes: *Data for the table above is from the 10/11/24 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.*

Mid-American Apartment Communities (MAA) and Rexford Industrial Realty (REXR) were replaced from last month's Top 10 by Equity LifeStyle Properties (ELS) and First Industrial Realty (FR).

The Top 10 has the following average characteristics:

	Top 10 REITs	S&P 500
Dividend Yield:	3.6%	1.3%
Growth Rate:	5.4%	5.5%
Valuation Return:	0.2%	-0.9%
Expected Annual Total Returns:	8.7%	5.8%

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 10/8/24 through 10/11/24.

Universal Health Realty Income Trust (UHT)

Dividend Yield: 6.9%
5-Year Expected Annual Total Returns: 8.9%

Overview & Current Events

Universal Health Realty Income specializes in the healthcare sector. The trust's property portfolio includes acute care hospitals, medical office buildings, rehabilitation hospitals, behavioral healthcare facilities, childcare centers, and sub-acute care facilities. Universal Health was founded in 1986 and has a current market capitalization of $575million.

On July 24th, 2024, Universal Health announced second quarter results for the period ending June 30th, 2024. Funds from operations (FFO) for the period was $12.4 million, or $0.90 per diluted share, compared to $10.6 million, or $0.77 per diluted share in the prior year. Universal Health is projected to generate FFO of $3.67 per share for 2024.

On June 5th, 2024, Universal Health announced that it was raising its quarterly dividend by 0.7% to $0.73.

Safety & Dividend Risk Analysis

Universal Health has an attractive dividend yield of 6.9%. While such high yields can be a warning sign, we believe the trust's dividend is likely safe. First, Universal Health has grown its dividend for 40 consecutive years, which is the second-longest dividend growth streak among REITs in our coverage universe.

The payout ratio has often been high. For example, the expected payout ratio for 2024 is 80%. This is an elevated level, but it is below the 10-year average payout ratio of 84%. FFO growth is projected to outpace dividend growth as well, providing a larger margin of safety over time.

While we do not believe that Universal Health has significant competitive advantages relative to its peers due to its size, the REIT healthcare space should see tailwinds from an aging demographic. There are more than 70 million Baby Boomers in the U.S., which should provide ample growth opportunities for this industry.

Growth, Value & Expected Total Return Analysis

Universal Health's profitability has been underwhelming as the trust's FFO has a compound annual growth rate of just 1.7% over the last decade. That said, we believe an aging society will provide tailwinds to the REIT healthcare space. As a result, we forecast 2.5% average annual FFO growth for the trust. Dividend growth is expected to be low at just 0.6% per year through 2029.

Shares of the trust are trading at 11.5 times expected FFO for 2024. We believe fair value is 12.0 times FFO, implying a slight 0.9% tailwind from multiple expansion.

In total, we forecast that Universal Health can offer a total annual return of 8.9% through 2029. This projection stems from FFO growth of 2.5%, a starting dividend yield of 6.9%, and the 0.9% boost from valuation multiple expansion.

Equinix Inc. (EQIX)

Dividend Yield: 1.9%
5-Year Expected Annual Total Returns: 9.0%

Overview & Current Events

Equinix is a REIT that specializes in data centers. Customers of EQIX include telecommunications carriers, mobile and network service providers, cloud and IT service providers, digital media and content providers, and financial services companies. Equinix was incorporated in 1998, converted to a REIT in 2015, and currently has a market capitalization of $83 billion.

Equinix reported second-quarter results on August 7th, 2024. The company grew its revenue by 7% from the previous year's quarter, marking its 86th consecutive quarter of revenue growth. Adjusted funds from operations (AFFO) rose 15%, from $8.04 to $9.22.

Management provided strong guidance for 2024. It expects 6% to 7% growth of revenues and 8% to 10% growth of AFFO per share, from $32.11 to $34.67 to $35.30. We expect AFFO per share of $34.99 for this year, in line with management's guidance.

Equinix also announced its expansion into the Philippines by acquiring three data centers from Total Information Management in a $180 million all-cash transaction expected to close in the fourth quarter of 2024.

Safety & Dividend Risk Analysis

Equinix is offering a 1.9% dividend, which is well covered given its healthy payout ratio of 49%. The trust has raised its dividend for 8 consecutive years and has ample room to keep raising its dividend for many more years. The trust's competitive advantage among data center REITs is its global platform spanning 33 countries which includes the industry's largest and most active ecosystem of partners in their centers, resulting in a network effect that enhances performance and lowers costs for clients. The trust has an S&P credit rating of BBB, and consolidated net debt-to-adjusted-EBITDA ratio of 3.5x.

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 pandemic had the opposite effect of the Great Recession on the REIT, as technology and data use increased significantly with stay-at-home orders, and remote work and school.

Growth, Value & Expected Total Return Analysis

Equinix has grown its revenues for 21 consecutive years and has grown its bottom line steadily for over a decade. For the past nine and five years, Equinix has grown its AFFO per share at an average annual rate of 10% and 9%, respectively. We expect the REIT to keep growing its AFFO per share by 9% per year on average until 2029, as it will expand its global platform and continue adding new data centers to its portfolio.

Based on expected 2024 AFFO per share of $34.99, the stock is trading for a price-to-FFO ratio (P/FFO) of 25.1, ahead of our fair value P/FFO estimate of 23.0. A contracting P/FFO multiple could reduce shareholder returns by 1.7% per year. This in conjunction with the 1.9% dividend yield and 9.0% FFO per share growth rate estimate, we expect total returns of 9.0% per year over the next five years.

SBA Communications Corp. (SBAC)

Dividend Yield: 1.7%
5-Year Expected Annual Total Returns: 8.9%

Overview & Current Events

SBA Communications is 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 $25 billion market cap.

On February 26th, 2024, SBA Communications raised its quarterly dividend by 15.3%, from $0.85 to $0.98.

On July 29th, 2024, SBA reported its results for the second quarter of fiscal 2024. Revenues dipped 3% over the prior year's quarter due to a 35% decrease in site development revenues. Adjusted funds from operations (AFFO) per share grew 3%, from $3.19 to $3.29, partly thanks to share repurchases, exceeding the analysts' estimates by $0.10.

Management slightly lowered its guidance for the full year for a second consecutive quarter. It is now expecting AFFO per share between $13.06 and $13.43 (down from $13.09 to $13.46). We have applied the midpoint of $13.25 in our estimates.

Safety & Dividend Risk Analysis

We consider SBA's dividend 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 shares, which is unusual for a REIT. The share count has declined by 1.9% per year on average from 2014 through 2023. Looking ahead, we expect SBA to generate 8.0% annualized growth of FFO per share.

SBA trades for a price-to-FFO ratio of 17.8, slightly above our fair value estimate of 17.0. Valuation multiple contraction could reduce returns by 0.9% per year over the next 5 years. The valuation headwind only slightly offsets 8.0% expected growth and the 1.7% dividend yield. Altogether, we forecast annual total returns of 8.9% over the next 5 years.

American Tower Corp. (AMT)

Dividend Yield: 2.9%
5-Year Expected Annual Total Returns: 8.8%

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 more than 224,000 communications sites, in the U.S. and international markets. It currently has a $102 billion market cap.

American Tower benefits from the ramp-up of 5G in the U.S., Canada, Europe, and some emerging markets. In the second quarter, American Tower grew its revenue 5% over the prior year's quarter, as its customers kept investing in their 5G networks and data consumption kept growing. Consolidated adjusted funds from operations (AFFO) per share grew 13%, from $2.46 to $2.79, and exceeded the analysts' consensus by $0.21. The net-debt-to-EBITDA ratio of the REIT improved from 5.0 to 4.8. American Tower raised its guidance for growth of property revenue from 1.5% to 1.7% and its guidance for consolidated AFFO per share from $10.30-$10.53 to $10.48-$10.72, implying 7% growth at the midpoint. Accordingly, we expect AFFO per share of $10.65 this year.

On September 12th, American Tower announced it closed the sale of its India operations to a Brookfield Asset Management subsidiary (BAM) for $2.2 billion.

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 American Tower's customers (once equipment is installed) 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 essentially negligible.

American Tower is currently offering a 2.9% dividend yield. While this yield is modest for a REIT, it is higher than the 10-year average yield of 2.1% of this REIT. Thanks to the healthy payout ratio of 61% of this stock, its dividend is safe for the foreseeable future. On the other hand, we note that the payout ratio is standing at a nearly 10-year high while the REIT has a material debt load. This means that the dividend may come under pressure whenever American Tower faces a severe downturn.

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 an 8.9% average annual rate. The trust is well entrenched as a leader in the U.S. market and has also been significantly expanding abroad. On the other hand, the evolution of 5G poses a threat, as it may disrupt the macro tower model of this REIT. We expect the REIT to grow its AFFO per share by 5% per year on average until 2029. The stock is trading at 20.7 times our estimate of 2024 AFFO. Our fair value multiple is 22.0 times AFFO, slightly below the historical average of the stock, indicating the potential for a 1.2% annual tailwind from valuation. When combined with the 2.9% yield and 5.0% growth, expected total returns are 8.8% per year over the next five years.

Realty Income Corp. (O)

Dividend Yield: 5.1%
5-Year Expected Annual Total Returns: 6.0%

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. The trust was founded in 1969, is headquartered in San Diego, CA, and has a $53 billion market cap.

On January 23rd, 2024, Realty Income closed on its $9.3 billion merger with Spirit Realty Capital. The merger required no external capital to complete; it increased the scale of the REIT's operations and is expected to be ~2.5% accretive to adjusted FFO per share.

On August 5th, 2024, Realty Income reported financial results Q2 2024. The REIT grew its funds from operations (FFO) per share 4.9% over the prior year's quarter, from $1.02 to $1.07 and grew its adjusted funds from operations (AFFO) per share by 6.0% year-over-year to $1.06. It also increased its occupancy rate from 98.6% to 98.8%. We expect AFFO per share of $4.17 this year. The company invested $805.8 million during the quarter at an initial weighted average cash yield of 7.9% and achieved a rent recapture rate of 105.7% on properties re-leased.

On September 10th, 2024, Realty Income announced a tiny 0.2% monthly dividend raise, from $0.2630 to $0.2635. The company typically raises its dividend more than once a year. The monthly dividend is 2.9% 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 in 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. In the 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. Realty Income is offering a 5.1% dividend yield. The payout ratio is 76%, which is reasonable for a REIT. The trust has raised its dividend for 27 consecutive years, so it is a Dividend Aristocrat.

Growth, Value & Expected Total Return Analysis

Realty Income's AFFO growth rate is 5.0% over the last decade. Going forward, we have assumed a growth rate of 2.2% due to the headwind from higher interest rates, which increase interest expense and thus reduce the REIT's operating margin. Shares are trading with a price-to-AFFO ratio of 14.8, versus our fair value estimate of 14.0. Valuation multiple contraction could result in a 1.3% annualized headwind to annual returns over the next five years. Altogether, shares could provide annual total returns of 6.0% per year thanks to 2.2% AFFO growth, the 5.1% yield, and a 1.3% annualized valuation headwind.

Alexandria Real Estate Equities Inc. (ARE)

Dividend Yield: 4.5%
5-Year Expected Annual Total Returns: 14.4%

Overview & Current Events

Alexandria Real Estate Equities is a real estate investment trust 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 such as Boston, San Francisco, New York, San Diego, Seattle, Maryland, and the Research Triangle. The REIT has a $20 billion market capitalization.

On June 3rd, 2024, Alexandria increased its dividend to $1.30 a quarter. This represents a 2.4% increase over its Q1 2024 dividend, and a 4.8% increase year-over-year.

Alexandria reported second quarter 2024 results on July 22nd, 2024, for the period ending June 30th, 2024. For the quarter, the company generated $767 million in revenue, up 7.4% from Q2 2023. Adjusted funds from operations (AFFO) were $406 million or $2.36 per share compared to $382 million or $2.24 per share in the second quarter of 2023. Alexandria reaffirmed its 2024 guidance, expecting $9.41 to $9.53 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 14 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 55% 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, combined 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 5.0% intermediate-term growth.

Alexandria trades at 12.1 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 5.9% per year, adding to the 4.5% dividend yield and 5.0% annual AFFO per share growth. We expect annualized total returns of 14.4% over the next five years.

STAG Industrial Inc. (STAG)

Dividend Yield: 4.0%
5-Year Expected Annual Total Returns: 8.6%

Overview & Current Events

STAG Industrial is an owner and operator of industrial real estate with a $6.7 billion market cap. It focuses on single-tenant industrial properties, owning 563 buildings across 41 U.S. states. While single-tenant properties can be riskier compared to multi-tenant ones—since they are either fully leased or entirely vacant—STAG mitigates this risk through rigorous quantitative and qualitative tenant analysis. As a result, the company has maintained credit losses of less than 0.1% of its revenue since its IPO. Currently, 53% of STAG's tenants are publicly rated, with 31% holding an "investment grade" rating.

On July 30th, 2024, STAG Industrial posted its Q2 results for the period ending June 30th, 2024. Core funds from operations (FFO) per share rose 9% year-over-year to $0.61, beating analyst expectations by $0.02. This growth was driven by strong tenant performance and significant rent increases. Despite a slight decline in occupancy from 97.7% to 97.1%, net operating income rose 10%. Note that interest expenses grew 20% due to higher interest rates. Still, thanks to its solid balance sheet, STAG has shown resilience amid these rate hikes. The company reaffirmed its positive outlook for 2024, projecting core FFO per share between $2.36 and $2.40.

Safety & Dividend Risk Analysis

STAG Industrial offers a relatively safe dividend, supported by a well-laddered lease maturity schedule with an average term of five years, which provides stable cash flow under normal conditions. The REIT stands out by paying monthly dividends—a plus for income investors—and currently offers a 4.0% yield. Notably, STAG has never cut its dividend, even during challenging periods, though dividend growth has been minimal, with increases of less than 1% annually over the past eight years. While the payout ratio has improved to healthy levels, investors should be mindful of the REIT's regular share dilution, as its share count has more than quadrupled since 2013. Note that STAG's exposure to industrial properties makes it vulnerable to economic downturns, though it proved resilient during the pandemic.

Growth, Value & Expected Total Return Analysis

STAG Industrial has grown its FFO per share at an average rate of 4.9% over the last five years and has ample room for future growth, given its tiny market share in the $1 trillion U.S. industrial market. We expect the REIT to continue growing its FFO per share at around 5% annually, increasing from $2.39 in 2024 to approximately $3.05 by 2029.

Shares of the trust are currently trading at 15.5 times our expected 2024 FFO, slightly below our fair value multiple of 16.0. This suggests a small boost from multiple expansion, which could increase annual returns by approximately 0.5% through 2029.

In total, we forecast that STAG Industrial can offer a total annual return of 8.6% through 2029. This projection stems from FFO growth of 5.0%, a starting dividend yield of 4.0%, and a modest boost from multiple expansion.

Sun Communities Inc. (SUI)

Dividend Yield: 3.0%
5-Year Expected Annual Total Returns: 8.9%

Overview & Current Events

Sun Communities is a well-established REIT founded in 1975 and publicly listed since 1993. Its portfolio generates about 50% of its rental revenue from manufactured housing, 29% from RV communities, and 21% from marina operations. Being the largest publicly traded owner of manufactured housing in the U.S. and the second largest in the U.K., Sun Communities oversees about 180,000 sites across both housing and RV segments, which further solidifies its leadership in the space. The REIT has a $16 billion market cap.

On July 31st, 2024, Sun Communities reported its financial results for the second quarter of fiscal 2024. Occupancy at manufactured housing and RV sites rose from 97.2% in the prior year to 98.7%, a notably high level. Same-store net operating income grew by 4%, driven by strong demand and limited supply, which allowed for significant rent increases. However, core funds from operations (FFO) per share dipped 5%, from $1.96 to $1.86, due to rising interest expenses caused by 23-year-high interest rates.

Sun Communities issued cautious guidance for 2024, acknowledging the dual impact of high interest rates: reduced housing demand and increased borrowing costs. Regardless, management sees 4.7%-5.7% growth in same-property net operating income and affirmed its FFO per share guidance of $7.06-$7.22 for the year.

Safety & Dividend Risk Analysis

Sun Communities has raised its dividend for eight consecutive years. While the company carries a higher-than-ideal leverage ratio of 6.2 (Net Debt/EBITDA), its net debt of $9.8 billion represents just 55% of its market cap, and it holds investment-grade ratings from both S&P (BBB) and Moody's (Baa3). Moreover, Sun Communities showed resilience during the pandemic by maintaining dividend growth and increasing FFO per share. Hence, despite its lower yield, we believe the company offers a safe dividend for the long term.

Growth, Value & Expected Total Return Analysis

Sun Communities is well-positioned to benefit from strong supply-demand dynamics, with increasing demand for manufactured housing and RV sites amid limited new supply. Over the past decade, the company has consistently raised rental rates by 4% and 5% annually for manufactured housing and RV sites, respectively. This year, it expects even higher increases of 5.4% and 6.5% in these segments. Based on its strong pricing power and favorable market conditions, we anticipate Sun Communities will achieve 5% annual growth in FFO per share over the next five years.

Based on expected 2024 FFO per share of $7.15, the stock is trading for a price-to-FFO ratio (P/FFO) of 17.7, a bit below our fair value P/FFO estimate of 19.0.

Based on our growth estimate, the stock's starting yield of 3.0%, and the possibility of a 1.4% annualized valuation multiple expansion boost, we expect total returns of 8.9% per year over the next five years.

Equity LifeStyle Properties Inc. (ELS)

Dividend Yield: 2.9%
5-Year Expected Annual Total Returns: 7.0%

Overview & Current Events

Equity LifeStyle Properties is a REIT focused on owning and operating lifestyle-oriented properties, mainly manufactured home and RV communities. Founded in 1992 and based in Chicago, it operates through two segments: Property Operations, which manages land lease properties; and Home Sales and Rentals Operations, which buys, sells, and leases homes. The company owns or controls over 400 communities across 33 states and British Columbia, with 165,000 sites and 4,000 employees. The REIT has a market capitalization of almost $13.0 billion.

On July 22nd, 2024, Equity LifeStyle reported its Q2 earnings for the period ending June 30th, 2024. Funds from Operations (FFO) per share grew by 13.5% to $0.69. Normalized FFO rose 2.9% to $0.66.

Operationally, core property revenues increased by 4.6%, and core income from property operations (excluding management) rose by 5.5%. The manufactured housing segment saw base rental income increase by 6.2%, while the RV and marina segment recorded a 2.0% increase. Core property operating expenses (excluding management) grew by 3.4%. For Q3 2024, FFO per share is expected to be between $0.69 and $0.75, and for the full year, between $2.86 and $2.96.

Safety & Dividend Risk Analysis

Equity LifeStyle Properties exhibits strong financial resilience and dividend safety due to its national presence, diversified portfolio, and proven ability to post stable results during economic downturns like the Great Recession and the COVID-19 pandemic. Its dividend payout ratio stands at a healthy 66%, ensuring stability while retaining room for growth.

Historically, the company has maintained a conservative payout, rarely exceeding 65% since 2005. Although it lacks an S&P credit rating, its solid balance sheet—with a debt-to-equity ratio of 2.4 and long-term debt cap of 70.8%—supports its capacity to sustain reliable dividends, which should appeal to income-focused investors.

Growth, Value & Expected Total Return Analysis

Equity LifeStyle has grown through acquiring new properties and increasing core income from property operations. Over the past decade, the company’s FFO per share has grown at a compound annual growth rate of 8.2%, with the five-year average standing at 6.8%. We believe the company can keep growing its FFO per share at a rate of 6% over the next five years, as it matures.

Based on expected 2024 FFO per share of $2.90 (midpoint of management’s guidance), the stock is trading for a price-to-FFO ratio (P/FFO) of 22.9, notably ahead of our fair value P/FFO estimate of 21.0. A contracting P/FFO multiple could reduce shareholder returns by 1.7% per year. Based on this, along with the 2.9% dividend yield and 6.0% FFO per share growth rate estimate, we expect total returns of 7.0% per year through 2029.

First Industrial Realty Trust Inc. (FR)

Dividend Yield: 2.7%
5-Year Expected Annual Total Returns: 6.3%

Overview & Current Events

First Industrial Realty Trust, founded in 1994, is a fully integrated REIT that specializes in the ownership, management, development, and sale of industrial real estate across the United States. The company's portfolio includes bulk and regional distribution centers, light industrial facilities, and other industrial properties, servicing both regional clients and multinational companies. As of its latest filings, First Industrial owned a total of 424 industrial properties across 19 states, totaling about 67.9 million square feet of gross leasable area (GLA).

On July 17th, 2024, First Industrial released its Q2 results for the period ending June 30th, 2024. The company's occupancy rate declined from 97.7% to 95.3%, but cash rental rates on new and renewal leases surged by 43%. Interest expenses rose by 18%, reflecting 16-year high interest rates that were still prevalent in the second quarter prior to the recent cut.

Despite these challenges, funds from operations (FFO) per share grew by 8%, rising from $0.61 to $0.66, beating analysts' estimates by $0.02. In addition, the REIT raised its full-year guidance, forecasting FFO per share between $2.57 and $2.65, up from the previous range of $2.53 to $2.63. This guidance suggests 7% growth at the midpoint. We expect FFO per share of $2.61 for the year, which would mark an all-time high if achieved.

Safety & Dividend Risk Analysis

We believe that First Industrial's competitive edge lies in the strength of its management team, which has consistently delivered by acquiring high-quality industrial properties and developing new facilities. This strategy has enabled the REIT to grow its FFO per share every year for the past decade.

In the meantime, the trust's noteworthy 12-year streak of dividend increases is supported by a sustainable payout ratio of 57%. Along with its BBB investment-grade credit rating, we believe the REIT's dividend remains secure with the company maintaining plenty of room to sustain further dividend increases over time.

Growth, Value & Expected Total Return Analysis

Over the past decade, First Industrial has achieved an average annual growth of 8.6% in FFO per share, exhibiting the resilience and strength of its business model. Still, we note that the current environment of rather elevated interest rates poses a challenge, impacting both real estate demand and the REIT's bottom line due to higher interest expenses. Thus, we project FFO per share growth to moderate to 6% annually over the next five years.

At present, the stock is trading at 20.7 times our projected FFO for 2024, compared to our fair value multiple of 18.5 times FFO. This implies a potential valuation drag of 2.2% per year. Factoring in the 2.7% dividend yield and the 6.0% FFO growth estimate, we project total annual returns of approximately 6.3% 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 900+ securities in Sure Analysis – including more than 110 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. Community Healthcare Trust Inc (CHCT): 11.3%
2. Uniti Group Inc (UNIT): 11.3%
3. Ellington Credit Co. (EARN): 14.3%
4. Brandywine Realty Trust (BDN): 10.8%
5. Alexandria Real Estate Equities Inc. (ARE): 4.5%
6. Ares Commercial Real Estate Corp (ACRE): 15.2%
7. Global Net Lease Inc (GNL): 12.8%
8. Rexford Industrial Realty Inc (REXR): 3.6%
9. American Assets Trust Inc (AAT): 5.1%
10. Apollo Commercial Real Estate Finance (ARI): 11.5%
11. Ladder Capital Corp (LADR): 8.3%
12. Netstreit Corp (NTST): 5.4%
13. CTO Realty Growth Inc (CTO): 8.1%
14. Healthcare Realty Trust Inc (HR): 7.2%
15. Plymouth Industrial REIT Inc (PLYM): 4.5%
16. Healthpeak Properties Inc. (DOC): 5.5%
17. Rithm Capital Corporation (RITM): 9.4%
18. Annaly Capital Management Inc (NLY): 13.2%
19. Chimera Investment Corp (CIM): 9.7%
20. Apple Hospitality REIT Inc (APLE): 6.4%
21. VICI Properties Inc (VICI): 5.4%
22. Two Harbors Investment Corp (TWO): 14%
23. EPR Properties (EPR): 7.1%
24. LXP Industrial Trust (LXP): 5.5%
25. PennyMac Mortgage Investment Trust (PMT): 11.1%
26. LTC Properties, Inc. (LTC): 6.4%
27. Ellington Financial Inc (EFC): 12.6%
28. Blackstone Mortgage Trust Inc (BXMT): 10.6%
29. New York Mortgage Trust Inc (NYMT): 14.2%
30. Clipper Realty Inc (CLPR): 6.4%
31. Easterly Government Properties Inc (DEA): 8%
32. AGNC Investment Corp (AGNC): 14%
33. Sachem Capital Corp (SACH): 13%
34. Equinix Inc (EQIX): 1.9%
35. Universal Health Realty Income Trust (UHT): 6.9%
36. Sun Communities, Inc. (SUI): 3%
37. SBA Communications Corp (SBAC): 1.7%
38. Kilroy Realty Corp. (KRC): 5.8%
39. American Tower Corp. (AMT): 2.9%
40. Independence Realty Trust Inc (IRT): 3.4%
41. Mid-America Apartment Communities (MAA): 3.8%
42. Global Medical REIT Inc (GMRE): 9%
43. STAG Industrial Inc (STAG): 4%
44. Gaming and Leisure Properties Inc (GLPI): 6%
45. Starwood Property Trust Inc (STWD): 9.7%
46. W. P. Carey Inc (WPC): 5.8%
47. Getty Realty Corp. (GTY): 5.8%
48. Cousins Properties Inc. (CUZ): 4.4%
49. Safehold Inc. (SAFE): 2.9%
50. Alpine Income Property Trust Inc (PINE): 6.3%
51. Four Corners Property Trust Inc (FCPT): 4.9%
52. KKR Real Estate Finance Trust Inc (KREF): 8.7%
53. American Homes 4 Rent (AMH): 2.8%
54. Agree Realty Corp. (ADC): 4.1%
55. UMH Properties Inc (UMH): 4.6%
56. Equity Residential Properties Trust (EQR): 3.7%
57. Gladstone Land Corp (LAND): 4.1%
58. UDR Inc (UDR): 3.9%
59. Terreno Realty Corp (TRNO): 3.1%
60. COPT Defense Properties (CDP): 3.8%
61. Gladstone Commercial Corp (GOOD): 7.4%
62. Equity Lifestyle Properties Inc. (ELS): 2.9%
63. Arbor Realty Trust Inc. (ABR): 11.4%
64. Postal Realty Trust Inc (PSTL): 6.8%
65. Kite Realty Group Trust (KRG): 4%
66. EastGroup Properties, Inc. (EGP): 3.2%
67. Saul Centers, Inc. (BFS): 5.8%
68. Invitation Homes Inc (INVH): 3.4%
69. Public Storage. (PSA): 3.4%
70. Crown Castle Inc (CCI): 5.6%
71. AvalonBay Communities Inc. (AVB): 3.1%
72. First Industrial Realty Trust, Inc. (FR): 2.7%
73. Essential Properties Realty Trust Inc (EPRT): 3.5%
74. Prologis Inc (PLD): 3.2%
75. Realty Income Corp. (O): 5.1%
76. National Storage Affiliates Trust (NSA): 5%

77. Brixmor Property Group Inc (BRX): 4%
78. NexPoint Residential Trust Inc (NXRT): 4.4%
79. CubeSmart (CUBE): 4%
80. NNN REIT Inc (NNN): 4.9%
81. One Liberty Properties, Inc. (OLP): 6.7%
82. Highwoods Properties, Inc. (HIW): 6.1%
83. CareTrust REIT Inc (CTRE): 3.8%
84. Innovative Industrial Properties Inc (IIPR): 5.8%
85. Whitestone REIT (WSR): 3.5%
86. Essex Property Trust, Inc. (ESS): 3.4%
87. Weyerhaeuser Co. (WY): 2.4%
88. Urban Edge Properties (UE): 3.2%
89. Omega Healthcare Investors, Inc. (OHI): 6.7%
90. Simon Property Group, Inc. (SPG): 4.8%
91. Regency Centers Corporation (REG): 3.8%
92. Digital Realty Trust Inc (DLR): 3.1%
93. Modiv Industrial Inc (MDV): 7.1%
94. Dynex Capital, Inc. (DX): 12.8%
95. Sabra Healthcare REIT Inc (SBRA): 6.6%
96. Macerich Co. (MAC): 3.8%
97. City Office REIT Inc (CIO): 7%
98. Federal Realty Investment Trust. (FRT): 3.9%
99. Orchid Island Capital Inc (ORC): 18.3%
100. ARMOUR Residential REIT Inc (ARR): 14.6%
101. Extra Space Storage Inc. (EXR): 3.8%
102. Kimco Realty Corporation (KIM): 4.1%
103. BXP Inc. (BXP): 4.8%
104. National Healthcare Corp. (NHC): 2%
105. Phillips Edison & Company Inc (PECO): 3.4%
106. Camden Property Trust (CPT): 3.4%
107. Tanger Inc. (SKT): 3.3%
108. Lamar Advertising Co (LAMR): 4.2%
109. Rayonier Inc. (RYN): 3.6%
110. Choice Properties Real Estate (PPRQF): 5.1%
111. Acadia Realty Trust (AKR): 3.3%
112. Iron Mountain Inc. (IRM): 2.4%

Disclaimer

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